GOLD CANYON SEWER COMPANY

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DIRECT TESTIMONY

OF

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ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utilities regulation and your educational background.

A. I have been involved with utilities regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science in the field of finance from Arizona State University and a Master of Business Administration, with an emphasis in accounting, from the University of Phoenix. I have recently been awarded the professional designation, Certified Rate of Return Analyst ("CRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRA designation is awarded based upon experience and the successful completion of a written examination. Appendix I, which is attached to this testimony, further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of Gold Canyon Sewer Company's ("Gold Canyon" or "Company") application for a permanent rate increase ("Application") that was filed with the ACC on January 13, 2006. The Company has chosen the fiscal year ended October 31, 2005 for the test year in this proceeding.

Q. Briefly describe Gold Canyon.

A. Gold Canyon provides wastewater service to customers in the unincorporated community of Gold Canyon, which is located along highway U.S. 60 to the east of Apache Junction in Pinal County. The Company is a wholly owned subsidiary of Algonquin Water Resources of America, which is a wholly owned subsidiary of the Algonquin Power Income Fund ("Algonquin Fund" or "Parent"), a mutual fund, or trust, which is listed on the Toronto Stock Exchange (ticker symbol APF.UN). In addition to Gold Canyon, the Algonquin Fund also owns and operates four other ACC regulated utilities: Bella Vista Water Company; located in Sierra Vista, Black Mountain Sewer Corporation (f.k.a. Boulders Carefree Sewer); serving parts of Carefree and North Scottsdale, Litchfield Park Services Company; situated on the west side of the Phoenix metropolitan area, and Rio Rico Utilities, Inc.; located just north of Nogales on the U.S. border between Arizona and Mexico. The Algonquin Fund also owns

Algonquin Water Services, which directly oversees the daily operations of the aforementioned Arizona public service companies.

Q. Briefly explain what a mutual fund is.

A. A mutual fund is a type of investment vehicle that generally provides investors with the opportunity to place their funds into a professionally managed portfolio of financial instruments such as stocks or bonds. In the case of a stock mutual fund, the fund's manager will buy and sell on the basis of how well a stock meets the fund's investment criteria, such as providing a specific level of dividend income and/or achieving projected levels of capital appreciation. Unlike the price of a stock or bond, the value of a mutual fund is expressed as its net asset value ("NAV"). Fund managers generally realize a profit from management fees, which are normally collected as a fixed percentage, typically between 0.5 percent and 2.00 percent a year, of the fund's NAV. Management fees are normally deducted from shareholder's assets on an annual basis. Closed-ended funds have a fixed number of shares that are bought and sold on securities exchanges in the same manner as individual stocks and bonds. Open-ended funds, on the other hand, offer new shares and redeem existing shares on a continual basis.

Q. How is the Algonquin Fund structured?

A. The Algonquin Fund is an open-ended fund with an investment portfolio comprised of utilities involved in the production of electricity and the provision of water and wastewater services[1]. These individual utilities make up the Algonquin Fund's Hydroelectric, Cogeneration, Alternative Fuels and Infrastructure Divisions. Instead of a collection of stocks or bonds, the fund is comprised of utilities that are bought, held and sold in the hope of achieving desired returns on investment. In this respect, the Algonquin fund is no different than a utility holding company whose shares are publicly traded in the financial markets. Shares of the funds are referred to as units and shareholders are referred to as unitholders. As I explained above, the Algonquin Fund's managers derive their income from management fees. A copy of the Algonquin Fund's annual report for 2005 can be viewed in Attachment A.

Q, Is this form of ownership common for utilities operating in Arizona?

A. No, most investor owned utilities operating in Arizona are either closely held corporate entities, are owned by a utility holding company or, as in

[1] According to information provided on the website of the Toronto Stock Exchange, the Algonquin Power Income Fund is an open-ended investment trust that owns or has interests in a diverse portfolio of power generating and infrastructure assets across North America, including 48 hydroelectric facilities, five natural gas- fired cogeneration facilities, 18 alternative fuels facilities and 15 water reclamation and distribution facilities. The Algonquin Fund was established in 1997 to provide unitholders with sustainable, highly stable and growing cash flows through a diversified portfolio of energy and infrastructure assets.

the case of many water and wastewater utilities, are owned by a firm that is engaged in land development.

Q. Please explain your role in RUCO's analysis of Gold Canyon's Application.

A. I reviewed Gold Canyon's Application and performed a cost of capital analysis to determine a fair rate of return on the Company's invested capital. In addition to my recommended capital structure, my direct testimony will present my recommended costs of common equity and my recommended hypothetical cost of debt (the Company has no preferred stock). The recommendations contained in this testimony are based on information obtained from Company responses to data requests, the Company's Application and from market-based research that I conducted during my analysis.

Q. Were you also responsible for conducting an analysis on the Company's proposed rate base, revenue level and rate design?

A. No I was not. RUCO witness Rodney L. Moore handled those aspects of the case.

Q. What areas will you address in your testimony?

A. I will address the cost of capital issues associated with the case.

Q. Please identify the exhibits that you are sponsoring.

A. I am sponsoring Schedules WAR-1 through WAR-9.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your cost of capital testimony is organized.

A. My cost of capital testimony is organized into three sections. First, I will present the findings of my cost of equity capital analysis, which utilized both the discounted cash flow ("DCF") method, and the capital asset pricing model ("CAPM"). These are the two methods that RUCO and ACC Staff have consistently used for calculating the cost of equity capital in rate case proceedings in the past, and are the methodologies that the ACC has given the most weight to in setting allowed rates of returns for utilities that operate in the Arizona jurisdiction. In this first section I will also provide a brief overview of the current economic climate that Gold Canyon is operating in. Second, I will compare my recommended capital structure with the Company-proposed capital structure. Third, I will comment on Gold Canyon's cost of capital testimony. Schedules WAR-1 through WAR-9 will provide support for my cost of capital analysis.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of my analysis of Gold Canyon, I am making the following recommendations:

Cost of Equity Capital – I am recommending a 9.04 percent cost of equity capital. This 9.04 percent figure is based on the results that I obtained from the constant growth DCF model in my cost of equity analysis, which employed both the DCF and CAPM methodologies.

Capital Structure – I am recommending that the Company-proposed capital structure, which is comprised of approximately 100 percent common equity be rejected by the ACC and that my recommended hypothetical capital structure, which is comprised of 60 percent common equity and 40 percent debt, be adopted by the Commission.

Cost of Debt – I am recommending that the Commission adopt a hypothetical cost of debt of 8.45 percent, which is 200 basis points higher than the average weighted cost of debt of eight publicly traded water companies that are followed by securities analysts with The Value Line Investment Survey.

Cost of Capital – Based on the results of my recommended hypothetical capital structure, I am recommending an 8.81 percent cost of capital for Gold Canyon, which is the weighted cost of my recommended costs of common equity and debt.

Q. Why do you believe that your recommended 8.81 percent cost of capital is an appropriate rate of return for Gold Canyon to earn on its invested capital?

A. The 8.81 percent cost of capital figure that I have recommended meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two cases affirmed that a public utility that is efficiently and economically managed is entitled to a return on investment that instills confidence in its financial soundness, allows the utility to attract capital, and also allows the utility to perform its duty to provide service to ratepayers. The rate of return adopted for the utility should also be comparable to a return that investors would expect to receive from investments with similar risk.

The Hope decision allows for the rate of return to cover both the operating expenses and the "capital costs of the business" which includes interest on debt and dividend payment to shareholders. This is predicated on the belief that, in the long run, a company that cannot meet its debt obligations and provide its shareholders with an adequate rate of return will not continue to supply adequate public utility service to ratepayers.

Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient to cover all operating and capital costs is guaranteed?

A. No. Neither case *guarantees* a rate of return on utility investment. What the Bluefield and Hope decisions *do allow*, is for a utility to be provided with the *opportunity* to earn a reasonable rate of return on its investment. That is to say that a utility, such as Gold Canyon, is provided with the opportunity to earn an appropriate rate of return if the Company's management exercises good judgment and manages its assets and resources in a manner that is both prudent and economically efficient.

COST OF EQUITY CAPITAL

Q. What is your recommended cost of equity capital for Gold Canyon?

A. Based on the results of my DCF and CAPM analyses, which ranged from 8.92 percent to 10.69 percent for a sample of publicly traded water and gas providers, I am recommending a 9.04 percent cost of equity capital for Gold Canyon. My recommended 9.04 percent figure is the result of my DCF analysis, which utilized a sample of publicly traded water providers.

Discounted Cash Flow (DCF) Method

Q. Please explain the DCF method that you used to estimate Gold Canyon's cost of equity capital.

A. The DCF method employs a stock valuation model known as the constant growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e.

the Gordon model), the professor of finance who was responsible for its development. Simply stated, the DCF model is based on the premise that the current price of a given share of common stock is determined by the present value of all of the future cash flows that will be generated by that share of common stock. The rate that is used to discount these cash flows back to their present value is often referred to as the investor's cost of capital (i.e. the cost at which an investor is willing to forego other investments in favor of the one that he or she has chosen).

Another way of looking at the investor's cost of capital is to consider it from the standpoint of a company that is offering its shares of stock to the investing public. In order to raise capital, through the sale of common stock, a company must provide a required rate of return on its stock that will attract investors to commit funds to that particular investment. In this respect, the terms "cost of capital" and "investor's required return" are one in the same. For common stock, this required return is a function of the dividend that is paid on the stock. The investor's required rate of return can be expressed as the percentage of the dividend that is paid on the stock (dividend yield) plus an expected rate of future dividend growth. This is illustrated in mathematical terms by the following formula:

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$$k = (D_1 \div P_0) + g$$

where: k = the required return (cost of equity, equity capitalization rate),

$D_1 \div P_0$ = the dividend yield of a given share of stock calculated by dividing the expected dividend by the current market price of the given share of stock, and

g = the expected rate of future dividend growth.

This formula is the basis for the standard growth valuation model that I used to determine Gold Canyon's cost of equity capital. It is similar to one of the models used by the Company.

Q. In determining the rate of future dividend growth for Gold Canyon, what assumptions did you make?

A. There are two primary assumptions regarding dividend growth that must be made when using the DCF method. First, dividends will grow by a constant rate into perpetuity, and second, the dividend payout ratio will remain at a constant rate. Both of these assumptions are predicated on the traditional DCF model's basic underlying assumption that a company's earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as g = b x r.

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.[2]

Table I

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.25	$11.70	4.00%
Equity Return	10%	10%	10%	10%	10%	N/A
Earnings/Sh.	$1.00	$1.04	$1.082	$1.125	$1.170	4.00%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.649	$0.675	$0.702	4.00%

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of $10.00 per share, an investor-expected equity return of ten percent, and a dividend payout ratio of sixty percent. This results in

[2] Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

earnings per share of $1.00 ($10.00 book value x 10 percent equity return) and a dividend of $0.60 ($1.00 earnings/sh. x 0.60 payout ratio) during Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's earnings are retained as opposed to being paid out to investors, book value increases to $10.40 in Year 2 of Mr. Hill's illustration. Table I presents the results of this continuing scenario over the remaining five-year period.

The results displayed in Table I demonstrate that under "steady-state" (i.e. constant) conditions, book value, earnings and dividends all grow at the same constant rate. The table further illustrates that the dividend growth rate, as discussed earlier, is a function of (1) the internally generated funds or earnings that are retained by a company to become new equity, and (2) the return that an investor earns on that new equity. The DCF dividend growth rate, expressed as g = b x r, is also referred to as the internal or sustainable growth rate.

Q. If earnings and dividends both grow at the same rate as book value, shouldn't that rate be the sole factor in determining the DCF growth rate?

A. No. Possible changes in the expected rate of return on either common equity or the dividend payout ratio make earnings and dividend growth by themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.47	$12.158	5.00%
Equity Return	10%	10%	15%	15%	15%	10.67%
Earnings/Sh	$1.00	$1.04	$1.623	$1.720	$1.824	16.20%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.974	$1.032	$1.094	16.20%

In the example displayed in Table II, a sustainable growth rate of four percent[3] exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.[4] If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rates for earnings and dividends, displayed in the last column, are 16.20 percent. If this rate were to be used in the DCF model, the utility's return on common equity would be expected to increase by fifty percent every five years, [(15 percent ÷ 10 percent) – 1]. This is clearly an unrealistic expectation.

Although it is not illustrated in Mr. Hill's hypothetical example, a change in only the dividend payout ratio will eventually result in a utility paying out more in dividends than it earns. While it is not uncommon for a utility in

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[3] [(Year 2 Earnings/Sh – Year 1 Earnings/Sh) ÷ Year 1 Earnings/Sh] = [($1.04 - $1.00) ÷ $1.00] = [$0.04 ÷ $1.00] = <u>4.00%</u>

[4] [(1 – Payout Ratio) x Rate of Return] = [(1 - 0.60) x 15.00%] = 0.40 x 15.00% = <u>6.00%</u>

the real world to have a dividend payout ratio that exceeds one hundred percent on occasion, it would be unrealistic to expect the practice to continue over a sustained long-term period of time.

Q. Other than the retention of internally generated funds, as illustrated in Mr. Hill's hypothetical example, are there any other sources of new equity capital that can influence an investor's growth expectations for a given company?

A. Yes, a company can raise new equity capital externally. The best example of external funding would be the sale of new shares of common stock. This would create additional equity for the issuer and is often the case with utilities that are either in the process of acquiring smaller systems or providing service to rapidly growing areas.

Q. How does external equity financing influence the growth expectations held by investors?

A. Rational investors will put their available funds into investments that will either meet or exceed their given cost of capital (i.e. the return earned on their investment). In the case of a utility, the book value of a company's stock usually mirrors the equity portion of its rate base (the utility's earning base). Because regulators allow utilities the opportunity to earn a reasonable rate of return on rate base, an investor would take into consideration the effect that a change in book value would have on the rate of return that he or she would expect the utility to earn. If an investor believes that a utility's book value (i.e. the utility's earning base) will increase, then he or she would expect the return on the utility's common stock to increase. If this positive trend in book value continues over an extended period of time, an investor would have a reasonable expectation for sustained long-term growth.

Q. Please provide an example of how external financing affects a utility's book value of equity.

A. As I explained earlier, one way that a utility can increase its equity is by selling new shares of common stock on the open market. If these new shares are purchased at prices that are higher than those shares sold previously, the utility's book value per share will increase in value. This would increase both the earnings base of the utility and the earnings expectations of investors. However, if new shares sold at a price below the pre-sale book value per share, the after-sale book value per share declines in value. If this downward trend continues over time, investors might view this as a decline in the utility's sustainable growth rate and will have lower expectations regarding growth. Using this same logic, if a new stock issue sells at a price per share that is the same as the pre-sale book value per share, there would be no impact on either the utility's earnings base or investor expectations.

Q. Please explain how the external component of the DCF growth rate is determined.

A. In his book, The Cost of Capital to a Public Utility,[5] Dr. Gordon (the individual responsible for the development of the DCF or constant growth model) identified a growth rate that includes both expected internal and external financing components. The mathematical expression for Dr. Gordon's growth rate is as follows:

$$g = (br) + (sv)$$

where:	g	=	DCF expected growth rate,
	b	=	the earnings retention ratio,
	r	=	the return on common equity,
	s	=	the fraction of new common stock sold that accrues to a current shareholder, and
	v	=	funds raised from the sale of stock as a fraction of existing equity.
and	v	=	$1 - [(BV) \div (MP)]$
where:	BV	=	book value per share of common stock, and
	MP	=	the market price per share of common stock.

[5] Gordon, M.J., <u>The Cost of Capital to a Public Utility</u>, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

Q. Did you include the effect of external equity financing on long-term growth rate expectations in your analysis of expected dividend growth for the DCF model?

A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of Schedule WAR-4, where it is added to the internal growth rate estimate (br) to arrive at a final sustainable growth rate estimate.

Q. Please explain why your calculation of external growth on page 2 of Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in the equation [(M ÷ B) + 1] ÷ 2.

A. The market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital (one of the desired effects of regulation). As a result of this situation, I used [(M ÷ B) + 1] ÷ 2 as opposed to the current market-to-book ratio by itself to represent investor's expectations that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

Q. Has the Commission ever adopted a cost of capital estimate that included this assumption?

A. Yes. In the recent Southwest Gas Corporation rate case[6], the Commission adopted the recommendations of ACC Staff’s cost of capital witness, Stephen Hill, who I noted earlier in my testimony. In that case,

[6] Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

Mr. Hill used the same methods that I have used in arriving at the inputs for the DCF model. His final recommendation for Southwest Gas Corporation was largely based on the results of his DCF analysis, which incorporated the same valid market-to-book ratio assumption that I have used consistently in the DCF model as a cost of capital witness for RUCO.

Q. How did you develop your dividend growth rate estimate?

A. I analyzed data on two separate proxy groups. A water company proxy group comprised of four publicly traded water companies and a natural gas proxy group consisting of eight natural gas local distribution companies ("LDC") which have similar operating characteristics to water providers.

Q. Why did you use a proxy group methodology as opposed to a direct analysis of Gold Canyon?

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company, as is the case with Gold Canyon itself. Although shares of the Algonquin Fund, the mutual fund that Gold Canyon is included in, are traded on the Toronto Stock Exchange, there is no financial data available on dividends paid on *publicly held* shares of Gold Canyon. Consequently it was necessary to create a proxy by analyzing publicly traded water companies with similar risk characteristics.

Q. Are there any other advantages to the use of a proxy?

A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope decision that a utility is entitled to earn a rate of return that is commensurate with the returns on investments of other firms with comparable risk. The proxy technique that I have used derives that rate of return. One other advantage to using a sample of companies is that it reduces the possible impact that any undetected biases, anomalies, or measurement errors may have on the DCF growth estimate.

Q. In determining your dividend growth rate estimates, both you and the Company's witness analyzed the data on publicly traded water utilities. Why did you and the Company witness analyze only publicly traded water utilities as opposed to firms that provide wastewater service?

A. The use of water utilities was necessitated by the fact that there is a lack of financial and market information available on stand-alone wastewater utilities. This in itself is not a problem, given the fact that both water and wastewater utilities share similar risk characteristics. Both types of utilities provide a basic service for which there are no substitutes and are also subject to strict federal and state regulations.

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Q. What criteria did you use in selecting the companies that make up your water company proxy for Gold Canyon?

A. Three of the water companies used in the proxy are publicly traded on the New York Stock Exchange ("NYSE"), and one of them, Southwest Water Company is traded over the counter through the National Association of Securities Dealers Automated Quotation System ("NASDAQ"). All four water companies are followed by The Value Line Investment Survey ("Value Line") and are the same companies that comprise Value Line's large capitalization Water Utility Industry segment of the U.S. economy (Attachment B contains Value Line's April 28, 2006 update of the water utility industry and evaluations of the four water companies used in my proxy).

Q. What companies comprise your water company proxy group?

A. My water company proxy group includes American States Water Company (stock ticker symbol "AWR"), Aqua America, Inc. ("WTR"), formerly known as Philadelphia Suburban Corporation, and California Water Service Group ("CWT"). The fourth water company, Southwest Water Company ("SWWC"), is a relatively new addition to Value Line's water industry segment and debuted in the October 28, 2005 edition of Value Line's Ratings and Reports publication. Each of these water companies face the same types of risk that Gold Canyon faces. For the sake of brevity, I will refer to each of these companies by their appropriate stock ticker symbols henceforth.

Q. Briefly describe the areas served by the companies in your water company sample proxy.

A. In addition to providing water service to residents of Fountain Hills, Arizona, through its wholly owned subsidiary Chaparral City Water Company, AWR serves communities located in Los Angeles, Orange and San Bernardino counties in California. CWT provides service to customers in seventy-five communities in California, New Mexico and Washington. CWT's principal service areas are located in the San Francisco Bay area, the Sacramento, Salinas and San Joaquin Valleys and parts of Los Angeles. SWWC owns and manages regulated systems in California, New Mexico, Oklahoma and Texas. WTR, is a holding company for a large number of water and wastewater utilities operating in nine different states including Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida and Kentucky.

Q. Are these the same water companies that Gold Canyon used in its application?

A. With the exception of SWWC, Gold Canyon's cost of capital witness, Mr. Thomas J. Bourassa, used the same water companies that I included in my proxy. In addition to these three companies, Mr. Bourassa also used three other water companies[7] that are included in Value Line's Small and Mid Cap Edition.

Q. Why did you exclude the water companies that are followed in Value Line's Small and Mid Cap Edition?

A. Value Line does not provide the same type of forward-looking information (i.e. long-term estimates on return on common equity and share growth) on small and mid-cap companies that it provides on the four water companies that I used in my proxy. Consequently, these water companies are not as suitable as the ones that I have used in my analysis.

Q. What criteria did you use in selecting the natural gas LDC's included in your proxy for Gold Canyon?

A. As are the water companies that I just described, each of the natural gas LDC's used in the proxy are publicly traded on a major stock exchange (all eight trade on the NYSE) and are followed by Value Line. Each of the eight LDC's are tracked in Value Line's natural gas (distribution) industry segment. All of the companies in the proxy are engaged in the provision of regulated natural gas distribution services. Attachment C of my testimony contains Value Line's most recent evaluation of the natural gas proxy group that I used for my cost of common equity analysis.

[7] Connecticut Water Service, Inc., Middlesex Water Company and SJW Corp.

Q. What companies are included your natural gas sample proxy?

A. The eight natural gas LDC’s included in my proxy (and their NYSE ticker symbols) are AGL Resources, Inc. (“ATG”), Cascade Natural Gas Corporation (“CGC”), Laclede Group, Inc. (“LG”), Northwest Natural Gas Co. (“NWN”), Peoples Energy Corporation (“PGL”), South Jersey Industries, Inc. (“SJI”) Southwest Gas Corporation (“SWX”), which is the dominant natural gas provider in Arizona and recently had a rate application before the ACC, and WGL Holdings, Inc. (“WGL”).

Q. Briefly describe the regions of the U.S. served by the eight natural gas LDC’s that make up your sample proxy.

A. The eight LDC’s listed above provide natural gas service to customers in the Middle Atlantic region (i.e. SJI which serves southern New Jersey and WGL which serves the Washington D.C. metro area), the Southeast (i.e. ATG which serves Virginia, southern Tennessee and the Atlanta, Georgia area), the Midwest (i.e. PGL which provides service to Chicago and its suburbs respectively and LG, which serves the St. Louis area), and the Pacific Northwest (i.e. CGC and NWN which serve Washington state and Oregon). Portions of Arizona, Nevada and California are served by SWX.

Q. Did the Company’s witness also perform a similar analysis using natural gas LDC’s?

A. No, he did not.

Q. Please explain your DCF growth rate calculations for the sample companies used in your proxy.

A. Schedule WAR-5 provides retention ratios, returns on book equity, internal growth rates, book values per share, numbers of shares outstanding, and the compounded share growth for each of the utilities included in the sample for the historical observation period 2001 to 2005 for both the water industry, and for the natural gas industry. Schedule WAR-5 also includes Value Line's projected 2006, 2007, and 2009-11 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding for the companies in both industries.

Q. Please describe how you used the information displayed in Schedule WAR-5 to estimate each comparable utility's dividend growth rate.

A. In explaining my analysis, I will use American States Water Company, (NYSE symbol AWR) as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (described on pages 9 and 10) to multiply AWR's earned return on common equity by its earnings retention ratio for each year in the 2001 to 2005 observation period to derive the utility's annual internal growth rates. I used the mean average of this five-year period as a benchmark against which I compared the projected growth rate trends provided by Value Line. Because an investor is more likely to be influenced by recent growth trends, as opposed to historical averages, the five-year mean noted earlier was used only as a benchmark figure. As shown on Schedule WAR-5, Page 1, AWR had sustainable internal growth that averaged 1.99 percent over the course of the 2001 to 2005 observation period. This reflects a downward trend that occurred during the 2002 - 2003 period. AWR rebounded from negative growth of 0.72% in 2003 to 1.01% in 2004. Value Line is predicting an increase to 3.17% for 2006 with lowered projected increases ranging from 3.72% in 2007 to 4.20% during the 2009-11 time frame. After weighing Value Line's lowered 8.00% earnings and 1.00% dividend projections, I have decreased my previous estimate from a 6.00% rate of growth to a 4.25% rate of growth, which is still within the realm of possibility for AWR.

Q. Please continue with the external growth rate component portion of your analysis.

A. Schedule WAR-5 demonstrates that the pattern of share's outstanding increased from 15.12 million to 16.80 million during the 2001 to 2005 time frame. Despite this share growth of 2.67 percent during the observation period, Value Line is predicting that this level will increase 17.50 million in 2006 to 20.50 million by the end of 2011. Based on this data, I believe that a 4.00% growth in shares is not unreasonable for AWR. My final dividend growth rate estimate for AWR is 6.81 percent (4.25 percent internal + 2.56 percent external) and is shown on Page 1 of Schedule WAR-4.

Q. What is your average dividend growth rate estimate using the DCF model for the sample water utilities?

A. Based on the DCF model, my average dividend growth rate estimate is 7.01 percent as displayed on page 1 of Schedule WAR-4.

Q. Did you use the same approach to determine an average dividend growth rate for the proxy comprised of natural gas LDC's?

A. Yes.

Q. What is your average dividend growth rate estimate using the DCF model for the sample natural gas utilities?

A. Based on the DCF model, my average dividend growth rate estimate is 4.46 percent, which is also displayed on page 1 of Schedule WAR-4.

Q. How does your average dividend growth rate estimates on water companies compare to the growth rate data published by Value Line and other analysts?

A. In the case of the water companies, my estimate falls below the projections of analysts at both Zacks Investment Research, Inc. ("Zacks") and Value Line. Schedule WAR-6 compares my sustainable growth estimates with the five-year projections of both Zacks (Attachment D) and Value Line. The 7.01 percent estimate that I have calculated is 37 basis points lower than the projected 5-year EPS average of 7.38 percent for

Zacks, and 20 basis points lower than the 7.21 percent projection by Value Line (which is an average of EPS, DPS and BVPS). However, my 7.01 percent growth estimate is 92 basis points higher than the Value Line and Zacks averages that include Value Line's historic dividend per share estimates. My 7.01 percent estimate is also 136 basis points higher than the 5.65 percent Value Line 5-year compound historical average also displayed in Schedule WAR-6. This indicates that investors are expecting increased performance from water utilities in the future. On balance, I would say my 7.01 percent estimate is a fair representation of the growth projections that are available to the investing public.

Q. How does your average dividend growth rate estimates on natural gas LDC's compare to the growth rate data published by Value Line and other analysts?

A. In regard to the natural gas LDC's, my 4.46 percent estimate falls 46 basis points below the projections of analysts at Zacks, but only 15 basis points lower than Value Line. However, as can also be seen on Schedule WAR-6, the 4.46 percent estimate that I have calculated is 8 basis points higher than the 4.38 percent average of the projected 5-year EPS means of 4.92 percent for Zacks and 4.61 percent by Value Line (which is an average of EPS, DPS and BVPS). My 4.46 percent growth estimate is also 189 basis points higher than the 2.57 percent five-year historical average of Value Line data on EPS, DPS and BVPS. As with water companies, this indicates that investors are expecting increased performance from natural gas distribution companies in the future. In the case of the LDC's I would say that my 4.46 percent estimate, which is closer to Value Line's projections than to Zack's estimates, is a fairly good representation of the growth projections presented by securities analysts at this point in time.

Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

A. For both the water companies and the natural gas LDC's I used the estimated annual dividends, for the next twelve-month period, that appeared in Value Line's April 28, 2006 Ratings and Reports water services industry update and Value Line's March 17, 2006 Ratings and Reports natural gas (Distribution) update. I then divided those figures by the eight-week average price per share of the appropriate utility's common stock. The eight-week average price is based on the daily closing stock prices for each of the companies in my proxies for the period March 27, 2006 to May 19, 2006.

Q. Based on the results of your DCF analysis, what is your cost of equity capital estimate for the water and natural gas companies included in your sample?

A. As shown in Schedule WAR-2, the cost of equity capital derived from my DCF analysis is 9.04 percent for the water companies and 9.10 percent for the natural gas LDC's.

Capital Asset Pricing Model (CAPM) Method

Q. Please explain the theory behind the capital asset pricing model ("CAPM") and why you decided to use it as an equity capital valuation method in this proceeding.

A. CAPM is a mathematical tool that was developed during the early 1960's by William F. Sharpe[8], the Timken Professor Emeritus of Finance at Stanford University, who shared the 1990 Nobel Prize in Economics for research that eventually resulted in the CAPM model. CAPM is used to analyze the relationships between rates of return on various assets and risk as measured by beta.[9] In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences. Finance theory has always held that as the risk associated with a given investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of various companies in various industries in a portfolio of securities),

[8] William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

[9] Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

systematic risk, on the other hand, cannot be eliminated by diversification. Thus, systematic risk is the only risk of importance to investors. Simply stated, the underlying theory behind CAPM states that the expected return on a given investment is the sum of a risk-free rate of return plus a market risk premium that is proportional to the systematic (non-diversifiable risk) associated with that investment. In mathematical terms, the formula is as follows:

$$k = r_f + [\ ß\ (\ r_m - r_f\ )\ ]$$

where:	k	=	cost of capital of a given security,
	r_f	=	risk-free rate of return,
	ß	=	beta coefficient, a statistical measurement of a security's systematic risk,
	r_m	=	average market return (e.g. S&P 500), and
	$r_m - r_f$	=	market risk premium.

Q. What security did you use for a risk-free rate of return in your CAPM analysis?

A. I used a six-week average on a 91-day Treasury Bill ("T-Bill") rate.[10] This resulted in a risk-free (r_f) rate of return of 4.74 percent.

[10] A six-week average was computed for the current rate using 91-day T-Bill quotes listed in Value Line's Selection and Opinion newsletter from April 14, 2006 to May 19, 2006.

Q. Why did you use the short-term T-Bill rate as opposed to the yield on an intermediate 5-year Treasury note or a long-term 30-year Treasury bond?

A. Because a 91-day T-Bill presents the lowest possible total risk to an investor. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments will reveal that those with longer maturity dates do have slightly higher yields. Treasury yields are comprised of two separate components,[11] a true rate of interest (believed to be approximately 2.00 percent) and an inflationary expectation. When the true rate of interest is subtracted from the total treasury yield, all that remains is the inflationary expectation. Because increased inflation represents a potential capital loss, or risk, to investors, a higher inflationary expectation by itself represents a degree of risk to an investor. Another way of looking at this is from an opportunity cost standpoint. When an investor locks up funds in long-term T-Bonds, compensation must be provided for future investment opportunities foregone. This is often described as maturity or interest rate risk and it can affect an investor adversely if market rates increase before the instrument matures (a rise in interest rates would decrease the value of the debt instrument). As discussed earlier in the DCF portion of my

[11] As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the true rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

testimony, this compensation translates into higher rates of returns to the investor. Since a 91-day T-Bill presents the lowest possible total risk to an investor, it more closely meets the definition of a risk-free rate of return and is the more appropriate instrument to use in a CAPM analysis.

Q. How did you calculate the market risk premium used in your CAPM analysis?

A. I used both a geometric and an arithmetic mean of the historical returns on the S&P 500 index from 1926 to 2005 as the proxy for the market rate of return (r_m). The risk premium (r_m - r_f) that results by using the geometric mean calculation for r_m is equal to 5.66 percent (10.40% - 4.74% = 5.56%). The risk premium that results by using the arithmetic mean calculation for r_m is 7.56 percent (12.30% - 4.74% = 7.56%).

Q. How did you select the beta coefficients that were used in your CAPM analysis?

A. The beta coefficients (ß), for the individual utilities used in both my proxies, were calculated by Value Line and were current as of April 28, 2006 for the water companies and March 17, 2006 for the natural gas LDC's. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite Index over a five-year period. The betas are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients for the service providers included in my water company sample ranged from 0.70 to 0.80 with an average beta of 0.74. The beta coefficients for the LDC's included in my natural gas sample ranged from 0.65 to 0.90 with an average beta of 0.78.

Q. What are the results of your CAPM analysis?

A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean for r_m results in an average expected return of 8.92 percent for the water companies and 9.20 percent for the natural gas LDC's. My calculation using an arithmetic mean results in an average expected return of 10.32 percent for the water companies and 10.69 percent for the natural gas LDC's. Although Ibbotson Associates, the publishers of the SBBI Yearbook (from which the aforementioned historical data was obtained) favor the arithmetic mean, which generally produces higher results than a geometric mean, the geometric mean produces a truer picture of gains and losses over a period of time. In regard to my water company sample in this case, my 9.04 percent DCF result falls within the estimates obtained from my CAPM analysis. In regard to the LDC sample, my 9.10 percent DCF falls 10 basis points below the range of CAPM gas industry results.

Q. Please summarize the results derived under each of the methodologies presented in your testimony.

A. The following is a summary of the cost of equity capital derived under each methodology used:

METHOD	**RESULTS**
DCF (Water Sample)	9.04%
DCF (Natural Gas Sample)	9.10%
CAPM (Water Sample)	8.92% – 10.32%
CAPM (Natural Gas)	9.20% – 10.69%

Based on these results, my best estimate of an appropriate range for a cost of common equity for Gold Canyon is 8.92 percent to 10.69 percent. My final recommendation for Gold Canyon is 9.04 percent.

Q How did you arrive at your recommended 9.04 percent cost of common equity?

A. My recommended 9.04 percent cost of common equity is the result of my DCF analysis for water companies.

Q. Is this the method that you have typically used to determine the cost of equity capital in prior rate case proceedings?

A. Typically yes. With a few exceptions I have generally used the results obtained from the DCF model as a basis for my final recommended cost of equity capital while using the CAPM in a supporting role.

Current Economic Environment

Q. Please explain why it is necessary to consider the current economic environment when performing a cost of equity capital analysis for a regulated utility.

A. Consideration of the economic environment is necessary because trends in interest rates, present and projected levels of inflation, and the overall state of the U.S. economy determine the rates of return that investors earn on their invested funds. Each of these factors represent potential risks that must be weighed when estimating the cost of equity capital for a regulated utility and are, most often, the same factors considered by individuals who are investing in non-regulated entities also.

Q. Please discuss your analysis of the current economic environment.

A. My analysis includes a brief review of the economic events that have occurred since 1990. Schedule WAR-8 displays various economic indicators and other data that I will refer to during this portion of my testimony.

In 1991, as measured by the most recently revised annual change in gross domestic product ("GDP"), the U.S. Economy experienced a rate of growth of negative 0.20 percent. This decline in GDP marked the beginning of a mild recession that ended sometime before the end of the first half of 1992. Reacting to this situation, the Federal Reserve Board

("Federal Reserve" or "Fed"), then chaired by noted economist Alan Greenspan, lowered its benchmark federal funds rate[12] in an effort to further loosen monetary constraints - an action that resulted in lower interest rates.

During this same period, the nation's major money center banks followed the Federal Reserve's lead and began lowering their interest rates as well. By the end of the fourth quarter of 1993, the prime rate (the rate charged by banks to their best customers) had dropped to 6.00 percent from a 1990 level of 10.01 percent. In addition, the Federal Reserve's discount rate on loans to its member banks had fallen to 3.00 percent and short-term interest rates had declined to levels that had not been seen since 1972.

Although GDP increased in 1992 and 1993, the Federal Reserve took steps to increase interest rates beginning in February of 1994, in order to keep inflation under control. By the end of 1995, the Federal discount rate had risen to 5.21 percent. Once again, the banking community followed the Federal Reserve's moves. The Fed's strategy, during this period, was to engineer a "soft landing." That is to say that the Federal Reserve wanted to foster a situation in which economic growth would be stabilized without incurring either a prolonged recession or runaway inflation.

[12] The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

Q. Did the Federal Reserve achieve its goals during this period?

A. The Fed's strategy of decreasing interest rates to stimulate the economy worked. The annual change in GDP began an upward trend in 1992. A change of 4.50 percent and 4.20 percent were recorded at the end of 1997 and 1998 respectively. Based on daily reports that were presented in the mainstream print and broadcast media during most of 1999, there appeared to be little doubt among both economists and the public at large that the U.S. was experiencing a period of robust economic growth highlighted by low rates of unemployment and inflation. Investors, who believed that technology stocks and Internet company start-ups (with little or no history of earnings) had high growth potential, purchased these types of issues with enthusiasm. These types of investors, who exhibited what former Chairman Greenspan described as “irrational exuberance,” pushed stock prices and market indexes to all time highs from 1997 to 2000.

Q. What has been the state of the economy since 2001?

A. The U.S. economy entered into a recession around the end of the first quarter of 2001. The bullish trend, which had characterized the last half of the 1990’s, had already run its course sometime during the third quarter of 2000. Economic data released since the beginning of 2001 had already been disappointing during the months preceding the September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon. Slower growth figures, rising layoffs in the high technology manufacturing sector, and falling equity prices (due to lower earnings expectations) prompted the Fed to begin cutting interest rates as it had done in the early 1990's. The now infamous terrorist attacks on New York City and Washington D.C. marked a defining point in this economic slump and prompted the Federal Reserve to continue its rate cutting actions through December 2001. Prior to the 9/11 attacks, commentators, reporting in both the mainstream financial press and various economic publications including Value Line, believed that the Federal Reserve Chairman was cutting rates in the hope of avoiding the recession that the U.S. is still in the process of recovering from.

Despite several intervals during 2002 and 2003 in which the Federal Open Market Committee ("FOMC") decided not to change interest rates, moves which indicated that the worst may be over and that the current recession might have bottomed out during the last quarter of 2001, a lackluster economy persisted. The continuing economic malaise and even fears of possible deflation prompted the FOMC to make a thirteenth rate cut on June 25, 2003. The quarter point cut reduced the federal funds rate to 1.00 percent, the lowest level in 45 years.

Even though some signs of economic strength, that were mainly attributed to consumer spending, began to crop up during the latter part of 2002 and into 2003, Chairman Greenspan appeared to be concerned with sharp declines in capital spending in the business sector.

During the latter part of 2003, the FOMC went on record as saying that it intended to leave interest rates low "for a considerable period." After its two-day meeting that ended on January 28, 2004, the FOMC announced "that with inflation 'quite low' and plenty of excess capacity in the economy, policy-makers 'can be patient in removing its policy accommodation.'"[13]

Q. What actions has the Federal Reserve taken in terms of interest rates since the beginning of 2001?

A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut interest rates a total of thirteen times. During this period, the federal funds rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25 percent. Between June 29, 2004 and January 31, 2006, the FOMC raised the federal funds rate thirteen more times to a level of 4.50 percent. The FOMC's January 31, 2006 meeting marked the final appearance of Alan Greenspan, who had presided over the rate setting body for a total of eighteen years. On that same day, Greenspan's successor, Ben Bernanke, the former chairman of the President's Council of Economic Advisers and a former Fed governor under Greenspan from 2002 to 2005, was confirmed by the U.S. Senate to be the new Fed chief. As expected by Fed watchers, Chairman Bernanke picked up where his predecessor

[13] Wolk, Martin, "Fed leaves short-term rates unchanged," MSNBC, January 28, 2004.

left off and increased the federal funds rate by 25 basis points during the FOMC meetings held on March 28, 2006 and May 10, 2006[14] for a total of sixteen consecutive rate increases

Q. What has been the reaction to the latest Fed action on interest rates under Chairman Bernanke?

A. As in the past, banks followed the Fed's lead once again and boosted the prime rate to a level of 8.00 percent, which is 300 basis points higher than the new target federal funds rate of 5.00 percent. According to an article that appeared in the December 2, 2004 edition of The Wall Street Journal, the FOMC's decision to begin raising rates two years ago was viewed as a move to increase rates from emergency lows in order to avoid creating an inflation problem in the future as opposed to slowing down the strengthening economy[15]. In other words, the Fed was trying to head off inflation *before* it became a problem.

Since it began increasing the federal funds rate in June 2004, the Federal Reserve had stated that it would increase rates at a "measured" pace.

Many analysts and economists interpreted this language to mean that former Chairman Greenspan would be cautious in increasing interest rates too quickly in order to avoid what is considered to be one of the Fed's few

[14] Ip, Greg, "Fed Raises Rates, Keeps Its Options Open for Future," The Wall Street Journal, May 11, 2006.
[15] McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

blunders during Greenspan's tenure – a series of increases in 1994 that caught the financial markets by surprise after a long period of low rates. The rapid rise in rates resulted in financial turmoil, which contributed to the bankruptcy of Orange County, California and the Mexican peso crisis[16].

Q. Putting this all into perspective, how have the Fed's actions since 2001 affected benchmark rates?

A. Despite recent increases by the FOMC, interest rates and yields on U.S. Treasury instruments are for the most part still at historically low levels. The Fed's actions have also had the overall effect of reducing the cost of many types of business and consumer loans. With the exception of the federal discount rate (the rate charged to member banks), which has increased to 6.00 percent from 5.73 percent in 2000, the other key interest rates (i.e. the prime rate and the federal funds rate) are still below their year-end 2000 levels.

Q. What has been the trend in other leading interest rates over the last year?

A. As of May 26, 2006, all of the leading interest rates have moved up. The prime rate has increased from 6.00 percent a year ago to its current level of 8.00 percent. The benchmark federal funds rate, just discussed, has increased from 3.00 percent, in May 2005, to its current level of 5.00 percent (the result of the sixteen quarter point increases noted earlier).

[16] Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

The yields on all maturities of U.S. Treasury instruments have increased over the past year. A previous trend, described by former Chairman Greenspan as a "conundrum"[17], in which long-term rates fell as short-term rates increased thus creating the flat yield curve that currently exists (Attachment E), appears to have ended. The 91-day T-bill rate, used in my CAPM analysis, increased from 2.86 percent, in May 2005, to 4.82 percent as of May 26, 2006. The 1-Year Treasury Constant Maturity rate also increased from 3.29 percent over the past year to 4.99 percent. Again, for the most part, these levels are still lower than corresponding yields during the early nineties (as can be seen on Schedule WAR-8).

Q. How have economists and members of the investment community viewed the Fed's rate actions since June 2004?

A. The change in the Fed's language from "considerable period" to "patient" to "measured," that have been noted through the course of my testimony, has pretty much summed up the Fed's course of action during the economic recovery that is still in progress. In his October 2004 column for Wells Capital Management's ("Wells") Monthly Market Outlook publication, Senior Economist Gary E. Schlossberg viewed the Fed's credit tightening action as a trend that would likely continue barring an unraveling of the economic recovery, a major disruption in the financial markets or a renewed threat of declining prices. Mr. Schlossberg believed then that the

[17] Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005.

Fed was determined to engineer a fundamental shift from its past policy of "aggressive accommodation" to what he considered to be a more "neutral" policy stance (determined by both the rate of inflation and an additional "premium" of possibly 1.00 percent to 1.50 percent) via a series of rapid fire quarter-point (i.e. 25 basis points) increases that will result in a federal funds rate of 4.00 percent to 4.50 percent by the end of 2005. Mr. Schlossberg's expectation of future incremental increases in the federal funds rate was also shared at the time by Mickey Levy, Chief Economist for Bank of America, and by Value Line analysts. In the October 1, 2004 edition of Value Line's "Selection & Opinion" publication, Value Line's analysts stated that they believed that the Fed was following a prudent course. In their opinion the Fed's interest rate cutting helped to avoid a more serious recession and the Fed's present course of action will help to insure that the current upturn in the economy is sustained while keeping inflation low and under control at the same time.

Q. What is the current outlook for interest rates, inflation, and the economy?

A. Reports in the mainstream financial press have focused on recent increasing concerns over inflation. In an article published in the June 1, 2006 edition of The Wall Street Journal, correspondent Greg Ip described how Federal Reserve officials debated over whether to leave rates unchanged or to boost the federal funds rate by 50 basis points during the recent Fed gathering noted earlier. According to the minutes of the May

10, 2006 FOMC meeting, members of the rate-setting body concluded that a 25 basis point increase "was appropriate today to keep inflation from rising and promote sustainable economic expansion." Mr. Ip went on to say how, with the exception of one member's preference not to raise rates at all after Hurricane Katrina last summer, this was the first time since the Fed began raising interest rates in June 2004 that anything other than a quarter point increase in rates was contemplated.

Analysts at Value Line are forecasting moderate economic growth over the last half of 2006. The June 2, 2006 Value Line Selection and Opinion publication offered this outlook:

> "The likely 2006 - 2007 moderation in business activity will probably encourage the Federal Reserve to stop raising interest rates before much longer. Our feeling is that the Fed may increase borrowing costs at its late-June Federal Open Market Committee meeting and and perhaps one more time after that. By this fall, we would expect the Fed to opt for a stable rate policy, before starting to lower rates, in response to slowing GDP growth, by early-to-mid-2007."

Q. How has the water industry segment of the U.S. economy fared recently?

A. In his April 28, 2006 update on the water services industry, Value Line analyst Andre Costanza continued to state that earnings for the water utility industry as a whole continued to lag the earnings of most industrial companies during 2005. Mr. Costanza attributes this problem to a combination of rainy weather and rising infrastructure costs. Mr. Costanza went on to state that the appeal of water company stocks to income-oriented investors has diminished in recent months as a result of recent price appreciation and rising interest rates. According to Mr. Costanza, CWT should appeal to conservative investors as a result of that company's historical steady stream of income. (Attachment B).

Q. What has been the trend in Value Line's return on common equity projections for the water utility industry over the last six years?

A. Up until this year, and with the exception of 2003, Value Line's analysts have been making downward projections on water industry book returns on common equity ("ROE"). The following is a summary of Value Line's water utility industry composite statistics on ROE, over the aforementioned period, which are exhibited in Attachment F of my testimony:

Value Line Published Projected Returns 2000 – 2005

	2000	**2001**	**2003-05**
Value Line ROE Projection – Nov. 3, 2000	11.0%	11.0%	12.0%
	2001	**2002**	**2004-06**
Value Line ROE Projection – Nov. 2, 2001	10.5%	11.0%	11.5%
	2002	**2003**	**2005-07**
Value Line ROE Projection – Nov. 1, 2002	10.0%	10.5%	11.5%
	2003	**2004**	**2006-08**
Value Line ROE Projection – Oct. 31, 2003	10.0%	11.0%	12.0%
	2004	**2005**	**2007-09**
Value Line ROE Projection – Oct. 29, 2004	9.5%	9.5%	10.0%
	2005	**2006**	**2008-10**
Value Line ROE Projection – Oct. 28, 2005	11.0%	11.0%	11.5%

Value Line Published Actual Returns 2001 - 2005

	2001	**2002**	**2003**	**2004**
Value Line historic Returns – Oct. 28, 2005	10.7%	11.2%	8.8%	10.7%

In addition to the downward trend in projections that I just addressed, the above summary also illustrates the fact that Value Line's analysts have been somewhat more optimistic in their forward-looking one-year and long-term projections. As can be seen below, Value Line's analysts have been somewhat high in their coming year projections on ROE.

Year	**Value Line Projected**	**Actual Book Return on ROE**	**Difference**
2001	11.0%	10.7%	-30 Basis Points
2002	11.0%	11.2%	20 Basis Points
2003	10.5%	8.8%	-170 Basis Points
2004	11.0%	10.7%	-30 Basis Points

As can be seen above, with the exception of the 2002 operating period, Value Line's analyst's projections on water utility ROE's from one year out were 30 to 170 basis points higher than the actual returns booked by the water utilities. This is why I do not rely on the face value of analyst's projections and only use Value Line's and Zack's projections as guides in developing my growth estimates for the DCF model.

…

Q. Please summarize how the economic data just presented relates to Gold Canyon.

A. If Federal Reserve Chairman Bernanke continues to keep inflation in check, and keep it contained within his preferred range of 1 to 2 percent[18], Gold Canyon could look forward to relatively stable and even possibly declining prices for goods and services, which in turn means that Gold Canyon can expect its present operating expenses to either remain stable or possibly decline in the coming years. Lower interest rates would also benefit Gold Canyon in regard to any short or long-term borrowing needs that the Company may have. Lower interest rates would further help to accelerate growth in new construction projects and home developments in the Company's service territories, and may result in new revenue streams to Gold Canyon.

Q. After weighing the economic information that you've just discussed, do you believe that the 9.04 percent cost of equity capital that you have estimated is reasonable for Gold Canyon?

A. I believe that my recommended 9.04 percent cost of equity will provide Gold Canyon with a reasonable rate of return on the Company's invested capital when economic data on interest rates (that are still low by historical standards), stable growth in new housing construction (attributed to still historically low interest rates), and the outlook for contained inflation are

[18] Ip, Greg, "Fed Minutes Indicate Inflation Still a Worry for Some Officials, " The Wall Street Journal, February 22, 2006.

all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is commensurate with the returns it would make on other investments with comparable risk. I believe that my DCF analysis has produced such a return.

CAPITAL STRUCTURE

Q. Have you reviewed Gold Canyon's testimony regarding the Company's proposed capital structure?

A. Yes, I have.

Q. Please describe the Company's proposed capital structure.

A. The Company is proposing a capital structure comprised of 100 percent common equity.

Q. Is Gold Canyon's proposed capital structure in line with industry averages?

A. No. Gold Canyon's capital structure is comprised entirely of equity as opposed to the capital structures of the other water companies included in my cost of capital analysis (Schedule WAR-9). The capital structures for those utilities averaged 50.3 percent for debt and 49.7 percent for equity (approximately 49.6 percent common equity + 0.1 percent preferred equity).

Q. In terms of risk, how does Gold Canyon's capital structure compare to the water utilities in your sample?

A. The water utilities in my sample, from which I derived an estimated cost of common equity of 9.04 percent versus the Company-proposed 10.50 percent, would be considered as having a higher level of financial risk (i.e. the risk associated with debt repayment) because of their higher levels of debt. The additional financial risk due to debt leverage is embedded in the cost of equities derived for those companies through the DCF analysis. Thus, the cost of equity derived in my DCF analysis is applicable to companies that are more leveraged and, theoretically speaking, riskier than a utility such as Gold Canyon, which has no debt in its capital structure. In the case of a publicly traded company, like those included in my proxy, a company with Gold Canyon's level of equity would be perceived as having extremely low to no financial risk and would therefore also have a lower expected return on common equity. Because of this, I believe a hypothetical capital structure that produces a lower weighted cost of common equity is warranted for Gold Canyon.

Q. What capital structure are you recommending for Gold Canyon?

A. I am recommending a hypothetical capital structure comprised of 60 percent equity and 40 percent debt.

…

Q. How would you respond to the argument that a hypothetical capital structure is not warranted in this case?

A. While such an argument could certainly be made, it would neither address or solve the problem I alluded to earlier, which is to calculate a downward adjustment to Gold Canyon's cost of common equity given the fact that my cost of common equity figure was derived from a group of sample companies that face greater financial risk as a result of the level of debt in their capital structures. This same issue was addressed in the Rio Rico Utilities, Inc., rate case, in which the Commission recognized the fact that such an adjustment was reasonable. This is evidenced in the Commission's Decision[19] on Rio Rico Utilities, which states the following:

> Based on the entirety of the record, we find that Rio Rico's cost of equity to be 8.7 percent which is approximately the midpoint between Staff's updated estimate (8.6 percent) and RUCO's recommendation (8.83 percent). However, the Company's capital structure is comprised entirely of equity, at a time when the cost of debt is low. As a result, ratepayers are penalized by the Company's choice of a capital structure consisting of higher cost equity. Although we are not using a hypothetical capital structure in this case, we believe that recognition of this imbalance should be reflected in the authorized rates of return for the wastewater division which experienced an operating loss during the test year.

…

[19] Decision No. 67279, Dated October 5, 2004

Q. What factors dictated your decision to recommend a capital structure of 60 percent common equity and 40 percent debt as opposed to the Company-proposed capital structure containing 100 percent common equity?

A. Because the Company-proposed capital structure of 100 percent common equity is not reflective of the capital structures of the sample utilities included in my cost of equity analysis, I believe that a lower weighted cost of capital, reflecting Gold Canyon's lower level of risk, is warranted. This could be achieved by either making a direct downward estimated adjustment to my DCF result, which reflects the financial risk of the sample utilities, as I did in a prior case involving Rio Rico Utilities, Inc[20], or by recommending a hypothetical structure, as I did in the recent Southwest Gas Corporation, Black Mountain Sewer Corporation and Far West Water & Sewer Company rate cases[21]. By using the hypothetical capital structure approach, a lower weighted cost of capital, that reflects the Company's lack of financial risk, is achieved. This brings the Company's capital structure in line with the industry average and results in lower rates to Gold Canyon's ratepayers.

…

[20] Decision No. 67279, Dated October 5, 2004

[21] Decision No. 68487, Dated February 23, 2006, Docket No. SW-02361A-05-0657, and Docket No. WS-3478A-05-0801 respectively.

Q. Why are you recommending a higher 60 percent level of equity for Gold Canyon, in your hypothetical capital structure, than the average 49.7 percent level of equity of your sample companies?

A. My hypothetical capital structure takes into account that Gold Canyon may face additional business risk and for that reason I believe a higher level of equity is reasonable.

Q. How did you determine your hypothetical cost of debt?

A. As can be viewed on page 2 of Schedule WAR-1, my recommended 8.45 percent hypothetical cost of debt is an average of the weighted costs of long-term debt of eight publicly traded water utilities followed by Value Line analysts, plus an additional 200 basis points. Four of these water utilities are the same ones that I described earlier and were used in my DCF and CAPM analyses. The remaining four (Connecticut Water Service, Inc., Middlesex Water Company, SJW Corp. and York Water Company) are the ones I noted earlier in my testimony that are followed in Value Line's Small & Mid-Cap Edition.

Q. Why did you add an additional 200 basis points to the average weighted costs of debt of the eight water utilities followed by Value Line?

A. The 200 basis point adjustment increase takes into consideration the fact that investor owned wastewater utilities operating in Arizona are not eligible for low cost loans made available through the Water Infrastructure

Finance Authority ("WIFA"). My 8.45 percent figure is also close to the 8.16 percent weighted cost of debt that I calculated for Gold Canyon's parent, the Algonquin fund, during a recent proceeding on Black Mountain Sewer Corporation.

Q. How does your recommended hypothetical cost of debt of 8.45 percent compare with the current costs (i.e. interest rates or yields) associated with different types of debt instruments?

A. My recommended hypothetical cost of debt of 8.45 percent is 45 basis points higher than the most recently published prime rate of 8.00 percent and is 217 and 186 basis points higher than the respective 6.28 percent and 6.59 percent yields on A-rated and Baa-rated utility bonds.

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The 10.50 percent cost of equity capital proposed by the Company's cost of capital witness is 146 basis points higher than the 9.04 percent cost of common equity (which reflects the higher financial risk of the water utilities in my sample), that I am recommending.

…

Q. How does the Company's proposed weighted cost of capital compare with your recommendation?

A. As explained earlier, the Company has proposed a weighted cost of capital of 10.50 percent. This composite figure is the result of the total absence of debt in the Company-proposed capital structure. The Company-proposed 10.50 percent weighted cost of capital is 169 basis points higher than the 8.81 percent weighted cost that I am recommending.

Q. Please summarize why you believe that the Commission should adopt your recommended weighted cost of capital that is the result of your recommended hypothetical capital structure and hypothetical cost of debt.

A. I believe that the approach that I have taken in this case is balanced in that it provides the Company with a rate of return that meets the standards established in the Hope and Bluefield cases while also providing lower rates to Gold Canyon’s customers. My recommended capital structure of 60 percent equity and 40 percent debt is more favorable to the Company than the average capital structure of the water utilities in my sample. Ratepayers also benefit from my recommended weighted cost of capital which is lower than what would have been obtained from a capital structure comprised of 100 percent common equity. Although my 8.81 percent weighted cost of capital is lower than my recommended 9.04 percent cost of common equity, it is still favorable to the Company in that it is higher than what it would have been had I not made a 200 basis point upward adjustment to the average weighted costs of debt of the water utilities followed by Value Line or had I only used the current yields on utility bonds. In short, I believe that I have taken a balanced approach that has produced a rate of return that is just and reasonable and should be adopted by the Commission.

COMMENTS ON GOLD CANYON'S COST OF EQUITY CAPITAL TESTIMONY

Q. Who estimated the Company-proposed cost of equity capital?

A. Mr. Thomas M. Bourassa (who I noted earlier in my testimony) estimated the Company-proposed cost of equity capital for Gold Canyon.

Q. Briefly describe Dr. Bourassa’s testimony.

A. Mr. Bourassa’s testimony presents a final cost of common equity estimate of 10.50 percent for Gold Canyon based on the results of his cost of equity analysis, which ranged from 9.20 percent to 12.90 percent. His weighted cost of capital of 10.50 percent is the result of his proposed capital structure of 100 percent equity.

Q. What methods did Mr. Bourassa use to arrive at his cost of common equity?

A. Mr. Bourassa used the DCF method, the risk premium method, and a comparable earnings method. His final estimate of 10.50 percent weighs the results obtained with these methodologies with actual returns, authorized returns and analyst's projections on returns on book equity over the 2005 – 2008 operating periods.

Q. Did you conduct a risk premium study or a comparable earnings analysis?

A. No I did not. The Risk premium methodology is basically an offshoot of the CAPM and the comparable earnings method, though used by most analysts to some degree, has been largely replaced by forward-looking methods such as DCF and CAPM.

Q. Do you agree with Mr. Bourassa's assertions that Gold Canyon is riskier because it is smaller than the utilities included in his sample and operates in the Arizona Jurisdiction?

A. No. Both of these arguments have been advanced by a number of utility witnesses over the years and the Commission has soundly rejected both arguments in every case that I have been involved in.

Q. Please comment on Mr. Bourassa's comments on the reliability of DCF results because of rising utility stock prices.

A. A similar argument can be made for the CAPM methodology, which is dependent on interest rates that have increased over the past year. Any methodology for determining the cost of equity capital is subject to fluctuating economic conditions, such as stock prices and interest rates, at any given point in time. I believe that varying economic conditions and their effects on the estimation of a cost of capital are a fact of life for entities that choose to engage in the regulated utility business. At the end of the day, utilities such as Gold Canyon choose when to file for rates and if the possibility exists that current economic conditions may have a negative impact on their desired rate of return they should refrain from filing for rates.

Q. Were there any differences in the way that you conducted your DCF analysis and the way that Mr. Bourassa conducted his?

A. Yes, Mr. Bourassa conducted three separate DCF analyses. Each of his DCF analyses uses a sample proxy of six water providers. His first DCF analysis uses a one-step constant growth model that uses analyst's estimates of long-term EPS growth for the growth (g) component in the model. His second DCF analysis is also a one-step constant growth model, similar to the one that I used, which includes Mr. Bourassa's sustainable growth (br + sv) estimates for the growth component in the model. Mr. Bourassa's third DCF analysis is a variation on the two-step or multi-stage growth DCF model.

…

Q. Why didn't you conduct a multi-stage DCF analysis like the one conducted by Mr. Bourassa?

A. Primarily because the growth rate component that I estimated for my single-stage model takes into consideration both the near-term and long-term GDP growth rate projections that Mr. Bourassa used in his multi-stage model. This being the case, I saw no need to conduct a separate DCF analysis. During a recent rate case involving Arizona-American Water Company's Paradise Valley Water District[22], Dr. Michael J. Vilbert, the cost of capital consultant for Arizona-American Water Company, took the position that the long-term GDP projections used in the multi-stage DCF model mitigates the effect of optimism bias, which is a tendency on the part of analysts to make overly optimistic growth estimates. In support of his position, Dr. Vilbert cited of a 2003 study[23], which concluded that there is little forecastability in earnings estimates over long horizons and that analysts' estimates tend to be overly optimistic. This situation was illustrated earlier in my testimony using Value Line estimates versus actual realized returns on book equity. As I also pointed out earlier in my testimony, the approach that I use takes optimism bias into consideration.

…

[22] Docket No. W-01303A-05-0405
[23] L. K. C. Chan, J. Karceski, and J. Lakonishok, 2003, "The Level and Persistence of Growth Rates, " Journal of Finance 58(2): 643-684.

Q. What is the difference between your DCF results and Mr. Bourassa's first DCF result?

A. The 9.04 percent cost of common equity derived in my DCF analysis, that uses an average of four sample water companies, is 166 basis points lower than the 10.70 percent midpoint figure derived in Mr. Bourassa's one-step DCF analysis, which is an average of six sample water companies (as exhibited in Schedule D-4.9 of the Company's Application).

Q. Please explain why your 9.04 percent DCF result is 166 basis points lower than the 10.70 percent result produced by Mr. Bourassa's one-step DCF model.

A. As I pointed out earlier in my testimony, Mr. Bourassa utilized three small to mid cap water utilities that are not traded as frequently as the companies in my sample. Mr. Bourassa's sample did not include results for SWWC either. Because of this we do not have a perfect apples to apples comparison. When the three water companies that we do have in common are compared against each other, his model produces a figure of 10.97 percent, that is 196 basis points higher than the 9.01 percent figure produced by my model. The comparison is still not an accurate one because Mr. Bourassa relied entirely on analyst's EPS growth estimates at face value whereas my model relied on my estimates of sustainable growth using analyst's projections as a guide. His average stock prices, (P_0) of the DCF formula ($k = (D_1 \div P_0) + g$), are spot prices which were observed on December 6, 2005 versus the eight-week average that I used. The difference between the closing stock prices used in my analysis and Mr. Bourassa's analysis are as follows:

	Rigsby	Bourassa	Difference
AWR	$39.11	$31.98	$7.13
CWT	$42.12	$36.59	$5.53
WTR	$24.85	$28.43	($3.58)

As can be seen above, both AWR's and CWT's stock prices increased from the spot prices recorded by Mr. Bourassa on December 6 2005 and the average price that I recorded over the period March 27, 2006 to May 19, 2006.

Q. What is the difference between your DCF estimate and Mr. Bourassa's second DCF analysis using sustainable growth estimates?

A. Mr. Bourassa's model produced a midpoint estimate of 11.40 percent, that is 236 basis points higher than the 9.04 percent figure produced by my DCF model. In addition to the differences that I pointed out previously regarding the utilities used in our samples and the differences in the dividend yield portion of the model, Mr. Bourassa again relies solely on the higher estimates of value line analysts for his estimates of br and s. Unlike my estimate of the v component of the model, his estimate of v fails to recognize that the market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital. This results in a higher figure for the v component of the growth estimate.

Q. Didn't you state earlier in your testimony that you did not use utilities that are followed in Value Line's Small and Mid Cap Edition because Value Line's analysts do not provide forward-looking information on long-term estimates of share growth?

A. Yes I did. These projections are necessary to develop an input for the sv component in my DCF model.

Q How did Mr. Bourassa deal with this situation in his sustainable growth model?

A. Mr. Bourassa was unable to calculate an actual sv estimate for Connecticut Water Service, Inc., Middlesex Water Company and SJW Corp. Instead of eliminating these companies from the analysis, he simply substitutes an average his growth estimates (br + sv) for the other three utilities that were included in both of our samples.

…

Q. What is the difference between your DCF result and Mr. Bourassa's two-step or multi-stage growth model DCF result?

A. The 9.04 percent cost of common equity derived in my constant growth DCF analysis (that uses four sample water companies) is 136 basis points lower than the 10.40 percent midpoint estimate derived in Mr. Bourassa's two-step DCF analysis. This version of the DCF produced the lowest midrange result of all the versions employed by the Company's witness. Mr. Bourassa used a long-term GDP growth estimate in the second stage component of the model, which as I discussed earlier, is believed to help mitigate the effects of optimism bias among securities analysts. Once again Mr. Bourassa used his same sample of six water companies.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of Mr. Bourassa, or any other witness for Gold Canyon constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on Gold Canyon?

A. Yes, it does.

APPENDIX 1

Qualifications of William A. Rigsby, CRRA

EDUCATION:	University of Phoenix Master of Business Administration, Emphasis in Accounting, 1993
	Arizona State University College of Business Bachelor of Science, Finance, 1990
	Mesa Community College Associate of Applied Science, Banking and Finance, 1986
	Society of Utility and Regulatory Financial Analysts 38th Annual Financial Forum and CRRA Examination Georgetown University Conference Center, Washington D.C. Awarded the Certified Rate of Return Analyst designation after successfully completing SURFA's CRRA examination.
	Michigan State University Institute of Public Utilities N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999
	Florida State University Center for Professional Development & Public Service N.A.R.U.C. Annual Western Utility Rate School, 1996
EXPERIENCE:	Public Utilities Analyst V Residential Utility Consumer Office Phoenix, Arizona April 2001 – Present
	Senior Rate Analyst Accounting & Rates - Financial Analysis Unit Arizona Corporation Commission, Utilities Division Phoenix, Arizona July 1999 – April 2001
	Senior Rate Analyst Residential Utility Consumer Office Phoenix, Arizona December 1997 – July 1999
	Utilities Auditor II and III Accounting & Rates – Revenue Requirements Analysis Unit Arizona Corporation Commission, Utilities Division Phoenix, Arizona October 1994 – November 1997
	Tax Examiner Technician I / Revenue Auditor II Arizona Department of Revenue Transaction Privilege / Corporate Income Tax Audit Units Phoenix, Arizona July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.	Type of Proceeding
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase

GOLD CANYON SEWER COMPANY

DOCKET NO. SW-02519A-06-0015

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GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
COST OF CAPITAL SUMMARY

WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) RUCO WEIGHTED COST
1	DEBT	40.00%	8.45%	3.38%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	60.00%	9.04%	5.43%
4	TOTAL CAPITALIZATION	100.00%		
5	**WEIGHTED COST OF CAPITAL**			8.81%

REFERENCES:
COLUMN (A): DIRECT TESTIMONY WAR
COLUMN (B): COLUMN (A) ÷ COLUMN (A), LINE 4
COLUMN (C): COLUMN (A) x COLUMN (B)

GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
COST OF CAPITAL SUMMARY

DOCKET NO. SW-02519A-06-0015
SCHEDULE WAR - 1

SAMPLE COMPANIES APPROXIMATE WEIGHTED COSTS OF DEBT

LINE NO.	STOCK SYMBOL	COMPANY	WEIGHTED COSTS		
1	AWR	AMERICAN STATES WATER CO.	7.12%		
2	CWT	CALIFORNIA WATER SERVICE GROUP	6.51%		
3	SWWC	SOUTHWEST WATER COMPANY	6.70%		
4	WTR	AQUA AMERICA, INC.	5.74%		
5	CTWS	CONNECTICUT WATER SERVICES, INC.	5.13%		
6	MSEX	MIDDLESEX WATER COMPANY	5.66%		
7	SJW	SJW CORP.	7.23%		
8	YORW	YORK WATER COMPANY	7.48%		
9	AVERAGE OF APPROXIMATE WEIGHTED COSTS OF DEBT (a)			6.45%	AVERAGE OF LINES 1 THRU 8
10	ADD: 200 BASIS POINTS			2.00%	DIRECT TESTIMONY WAR
11	**RUCO RECOMMENDED COST OF DEBT**			8.45%	LINE 9 + LINE 10

REFERENCE:
MOST RECENT SEC 10-K FILINGS

NOTE:
(a) COSTS ARE APPROXIMATE AND DO NOT INCLUDE THE FOLLOWING:
DEBT ISSUES THAT DID NOT HAVE STATED YIELDS; AND
DEBT ISSUES WITH ZERO RATES OF INTEREST.
IN THE CASE OF ISSUES WITH VARIABLE RATES OF INTEREST THE HIGH END OF THE VARIABLE RANGE WAS USED.

GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
DCF COST OF EQUITY CAPITAL

DOCKET NO. SW-02519A-06-0015
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	2.30%	+	6.81%	=	9.11%
2	CWT	CALIFORNIA WATER SERVICE GROUP	2.73%	+	6.10%	=	8.83%
3	SWWC	SOUTHWEST WATER COMPANY	1.35%	+	7.80%	=	9.15%
4	WTR	AQUA AMERICA, INC.	1.74%	+	7.34%	=	9.08%
5	**WATER COMPANY AVERAGE**						9.04%
6	ATG	AGL RESOURCES, INC.	4.17%	+	4.04%	=	8.21%
7	CGC	CASCADE NATURAL GAS CORPORATION	4.77%	+	2.41%	=	7.18%
8	LG	LACLEDE GROUP, INC.	4.21%	+	4.85%	=	9.06%
9	NWN	NORTHWEST NATURAL GAS CO.	3.97%	+	4.40%	=	8.36%
10	PGL	PEOPLES ENERGY CORPORATION	6.03%	+	2.66%	=	8.68%
11	SJI	SOUTH JERSEY INDUSTIES, INC.	6.56%	+	6.53%	=	13.10%
12	SWX	SOUTHWEST GAS CORPORATION	2.93%	+	6.70%	=	9.62%
13	WGL	WGL HOLDINGS, INC.	4.54%	+	4.08%	=	8.62%
16	**NATURAL GAS LDC AVERAGE**						9.10%

REFERENCES:
COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
DIVIDEND YIELD CALCULATION

DOCKET NO. SW-02519A-06-0015
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	÷	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	$0.90	÷	$39.11	=	2.30%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.15	÷	42.12	=	2.73%
3	SWWC	SOUTHWEST WATER COMPANY	0.21	÷	15.43	=	1.35%
4	WTR	AQUA AMERICA, INC.	0.43	÷	24.85	=	1.74%
5	**WATER COMPANY AVERAGE**						2.03%
6	ATG	AGL RESOURCES, INC.	$1.48	÷	$35.49	=	4.17%
7	CGC	CASCADE NATURAL GAS CORPORATION	0.96	÷	20.11	=	4.77%
8	LG	LACLEDE GROUP, INC.	1.42	÷	33.74	=	4.21%
9	NWN	NORTHWEST NATURAL GAS CO.	1.38	÷	34.77	=	3.97%
10	PGL	PEOPLES ENERGY CORPORATION	2.18	÷	36.18	=	6.03%
11	SJI	SOUTH JERSEY INDUSTIES, INC.	1.75	÷	26.70	=	6.56%
12	SWX	SOUTHWEST GAS CORPORATION	0.82	÷	28.03	=	2.93%
13	WGL	WGL HOLDINGS, INC.	1.33	÷	29.36	=	4.54%
16	**NATURAL GAS LDC AVERAGE**						4.65%

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/28/2006 (WATER COMPANIES) AND 03/17/2006 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 03/27/2006 TO 05/19/2006 STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) ÷ COLUMN (B)

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	4.25%	+	2.56%	=	6.81%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.25%	+	2.85%	=	6.10%
3	SWWC	SOUTHWEST WATER COMPANY	6.50%	+	1.30%	=	7.80%
4	WTR	AQUA AMERICA, INC.	6.00%	+	1.34%	=	7.34%
5	**WATER COMPANY AVERAGE**						7.01%
6	ATG	AGL RESOURCES, INC.	4.00%	+	0.04%	=	4.04%
7	CGC	CASCADE NATURAL GAS CORPORATION	2.25%	+	0.16%	=	2.41%
8	LG	LACLEDE GROUP, INC.	4.00%	+	0.85%	=	4.85%
9	NWN	NORTHWEST NATURAL GAS CO.	4.25%	+	0.15%	=	4.40%
10	PGL	PEOPLES ENERGY CORPORATION	2.00%	+	0.66%	=	2.66%
11	SJI	SOUTH JERSEY INDUSTIES, INC.	6.00%	+	0.53%	=	6.53%
12	SWX	SOUTHWEST GAS CORPORATION	6.00%	+	0.70%	=	6.70%
13	WGL	WGL HOLDINGS, INC.	4.00%	+	0.08%	=	4.08%
16	**NATURAL GAS LDC AVERAGE**						4.46%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. SW-02519A-06-0015
SCHEDULE WAR - 4
PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	x	(B) { [((M ÷ B) + 1) ÷ 2] - 1 }	=	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	4.00%	x	{ [((2.28) + 1) ÷ 2] - 1 }	=	2.56%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.75%	x	{ [((2.52) + 1) ÷ 2] - 1 }	=	2.85%
3	SWWC	SOUTHWEST WATER COMPANY	2.00%	x	{ [((2.30) + 1) ÷ 2] - 1 }	=	1.30%
4	WTR	AQUA AMERICA, INC.	1.00%	x	{ [((3.68) + 1) ÷ 2] - 1 }	=	1.34%
5	**WATER COMPANY AVERAGE**						2.01%
6	ATG	AGL RESOURCES, INC.	0.10%	x	{ [((1.75) + 1) ÷ 2] - 1 }	=	0.04%
7	CGC	CASCADE NATURAL GAS CORPORATION	0.50%	x	{ [((1.63) + 1) ÷ 2] - 1 }	=	0.16%
8	LG	LACLEDE GROUP, INC.	2.00%	x	{ [((1.85) + 1) ÷ 2] - 1 }	=	0.85%
9	NWN	NORTHWEST NATURAL GAS CO.	0.50%	x	{ [((1.58) + 1) ÷ 2] - 1 }	=	0.15%
10	PGL	PEOPLES ENERGY CORPORATION	1.75%	x	{ [((1.75) + 1) ÷ 2] - 1 }	=	0.66%
11	SJI	SOUTH JERSEY INDUSTIES, INC.	1.25%	x	{ [((1.85) + 1) ÷ 2] - 1 }	=	0.53%
12	SWX	SOUTHWEST GAS CORPORATION	3.00%	x	{ [((1.46) + 1) ÷ 2] - 1 }	=	0.70%
13	WGL	WGL HOLDINGS, INC.	0.25%	x	{ [((1.64) + 1) ÷ 2] - 1 }	=	0.08%
16	**NATURAL GAS LDC AVERAGE**						0.39%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 04/28/2006 (WATER COMPANIES) AND 03/17/2006 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
DIVIDEND GROWTH COMPONENTS

DOCKET NO. SW-02519A-06-0015
SCHEDULE WAR - 5, PAGE 1 OF 3

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2001	0.3556		10.10%		3.59%	13.22	15.12	
2			2002	0.3507		9.50%		3.33%	14.05	15.18	
3			2003	-0.1282		5.60%		-0.72%	13.97	15.21	
4			2004	0.1524		6.60%		1.01%	15.01	16.77	
5			2005	0.3233		8.50%		2.75%	15.72	16.80	
6			GROWTH 2001 - 2005					1.99%	4.50%		2.67%
7			2006	0.3724		8.50%		3.17%		17.50	4.17%
8			2007	0.4129		9.00%		3.72%		18.25	4.23%
9			2009-11	0.4667		9.00%		4.20%	5.00%	20.50	4.06%
10											
11	CWT	CALIFORNIA WATER SERVICE GROUP	2001	-0.1915		7.20%		-1.38%	12.95	15.18	
12			2002	0.1040		9.50%		0.99%	13.12	15.18	
13			2003	0.0744		7.90%		0.59%	14.44	16.93	
14			2004	0.2260		9.00%		2.03%	15.66	18.37	
15			2005	0.2245		9.30%		2.09%	15.98	18.39	
16			GROWTH 2001 - 2005					0.86%	0.86%		4.91%
17			2006	0.3235		9.00%		2.91%		19.00	3.32%
18			2007	0.3371		10.50%		3.54%		19.50	2.97%
19			2009-11	0.3222		9.00%		2.90%	5.00%	22.00	3.65%
20											
21	SWWC	SOUTHWEST WATER COMPANY	2001	0.6667		11.40%		7.60%	3.84	14.17	
22			2002	0.6154		9.70%		5.97%	4.27	14.35	
23			2003	0.6364		9.10%		5.79%	4.90	16.17	
24			2004	0.2174		3.60%		0.78%	6.17	20.36	
25			2005	0.4118		5.00%		2.06%	6.49	22.33	
26			GROWTH 2001 - 2005					4.44%	4.44%		12.04%
27			2006	0.4762		6.00%		2.86%		23.00	3.00%
28			2007	0.5294		7.00%		3.71%		23.00	1.49%
29			2009-11	0.6947		9.50%		6.60%	7.00%	24.00	1.45%
30											
31	WTR	AQUA AMERICA, INC.	2001	0.4118		12.40%		5.11%	4.15	113.97	
32			2002	0.4074		12.70%		5.17%	4.36	113.19	
33			2003	0.3860		10.20%		3.94%	5.34	123.45	
34			2004	0.4219		10.70%		4.51%	5.89	127.18	
35			2005	0.4366		11.20%		4.89%	6.30	128.97	
36			GROWTH 2001 - 2005					4.72%	4.72%		3.14%
37			2006	0.4286		11.50%		4.93%		130.00	0.80%
38			2007	0.4302		12.00%		5.16%		131.00	0.78%
39			2009-11	0.4500		13.00%		5.85%	8.00%	134.00	0.77%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 04/28/2006
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
DIVIDEND GROWTH COMPONENTS

DOCKET NO. SW-02519A-06-0015
SCHEDULE WAR - 5, PAGE 2 OF 3

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	ATG	AGL RESOURCES, INC.	2001	0.2800		12.30%		3.44%	12.19	55.10	
2			2002	0.4066		14.50%		5.90%	12.52	56.70	
3			2003	0.4663		14.00%		6.53%	14.66	64.50	
4			2004	0.4956		11.00%		5.45%	18.06	76.70	
5			2005	0.4758		12.90%		6.14%	19.29	77.70	
6			GROWTH 2001 - 2005					5.49%	8.50%		8.97%
7			2006	0.4118		12.50%		5.15%		77.80	0.13%
8			2007	0.3923		12.00%		4.71%		77.80	0.06%
9			2009-11	0.3966		12.00%		4.76%	6.00%	78.00	0.08%
10											
11	CGC	CASCADE NATURAL GAS CORPORATION	2001	0.3469		13.30%		4.61%	11.01	11.05	
12			2002	0.1504		10.90%		1.64%	10.34	11.05	
13			2003	-0.1034		8.60%		-0.89%	10.11	11.13	
14			2004	0.1933		11.20%		2.16%	10.52	11.27	
15			2005	-0.1707		7.80%		-1.33%	10.39	11.41	
16			GROWTH 2001 - 2005					1.24%	-		0.80%
17			2006	0.0400		8.00%		0.32%		11.50	0.79%
18			2007	0.1652		8.00%		1.32%		11.50	0.39%
19			2009-11	0.3677		8.50%		3.13%	10.50%	12.50	1.84%
20											
21	LG	LACLEDE GROUP, INC.	2001	0.1677		10.50%		1.76%	15.26	18.88	
22			2002	-0.1356		7.80%		-1.06%	15.07	18.96	
23			2003	0.2637		11.60%		3.06%	15.65	19.11	
24			2004	0.2582		10.10%		2.61%	16.96	20.98	
25			2005	0.2789		10.90%		3.04%	17.31	21.17	
26			GROWTH 2001 - 2005					1.88%	2.50%		2.90%
27			2006	0.4043		13.00%		5.26%		21.50	1.56%
28			2007	0.4083		13.00%		5.31%		21.50	0.78%
29			2009-11	0.4643		13.00%		6.04%	5.00%	24.00	2.54%
30											
31	NWN	NORTHWEST NATURAL GAS CO.	2001	0.3351		10.20%		3.42%	18.56	25.23	
32			2002	0.2222		8.50%		1.89%	18.88	25.59	
33			2003	0.2784		9.00%		2.51%	19.52	25.94	
34			2004	0.3011		8.90%		2.68%	20.64	27.55	
35			2005	0.3744		10.00%		3.74%	21.27	27.58	
36			GROWTH 2001 - 2005					2.85%	3.50%		2.25%
37			2006	0.3867		10.00%		3.87%		27.75	0.62%
38			2007	0.4083		10.50%		4.29%		27.80	0.40%
39			2009-11	0.4035		10.50%		4.24%	3.50%	28.00	0.30%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/17/2006
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	PGL	PEOPLES ENERGY CORPORATION	2001	0.3544		13.90%		4.93%	22.76	35.40	
2			2002	0.2607		12.30%		3.21%	22.74	35.46	
3			2003	0.2639		12.30%		3.25%	23.11	36.69	
4			2004	0.0092		9.40%		0.09%	23.06	36.69	
5			2005	0.0354		10.80%		0.38%	20.95	38.16	
6			GROWTH 2001 - 2005					2.37%	2.00%		1.89%
7			2006	0.0311		11.00%		0.34%		39.00	2.20%
8			2007	0.0917		11.50%		1.05%		40.00	2.38%
9			2009-11	0.1704		13.50%		2.30%	-1.50%	42.00	1.94%
10											
11	SJI	SOUTH JERSEY INDUSTIES, INC.	2001	0.3565		12.80%		4.56%	7.81	23.72	
12			2002	0.3852		12.50%		4.82%	9.67	24.41	
13			2003	0.4307		11.60%		5.00%	11.26	26.46	
14			2004	0.4810		12.50%		6.01%	12.41	27.76	
15			2005	0.4971		12.40%		6.16%	13.50	28.98	
16			GROWTH 2001 - 2005					5.31%	13.00%		5.13%
17			2006	0.4973		12.50%		6.22%		29.00	0.07%
18			2007	0.4974		12.50%		6.22%		29.60	1.06%
19			2009-11	0.5000		13.00%		6.50%	6.00%	31.00	1.36%
20											
21	SWX	SOUTHWEST GAS CORPORATION	2001	0.2870		6.60%		1.89%	17.27	32.49	
22			2002	0.2931		6.50%		1.91%	17.91	33.29	
23			2003	0.2743		6.10%		1.67%	18.42	34.23	
24			2004	0.5060		8.30%		4.20%	19.18	36.79	
25			2005	0.3387		6.50%		2.20%	18.60	39.20	
26			GROWTH 2001 - 2005					2.37%	4.00%		4.81%
27			2006	0.4710		8.00%		3.77%		40.00	2.04%
28			2007	0.5314		9.50%		5.05%		42.00	3.51%
29			2009-11	0.6435		10.50%		6.76%	3.00%	45.00	2.80%
30											
31	WGL	WGL HOLDINGS, INC.	2001	0.3298		11.20%		3.69%	16.24	48.54	
32			2002	-0.1140		11.20%		-1.28%	15.78	48.56	
33			2003	0.4435		14.00%		6.21%	16.25	48.63	
34			2004	0.3434		11.70%		4.02%	16.95	48.67	
35			2005	0.3744		12.00%		4.49%	17.80	48.65	
36			GROWTH 2001 - 2005					3.43%	3.00%		0.06%
37			2006	0.2703		10.00%		2.70%		48.70	0.10%
38			2007	0.2923		10.00%		2.92%		48.70	0.05%
39			2009-11	0.3958		11.00%		4.35%	4.00%	48.80	0.06%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/17/2006
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005
COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
GROWTH RATE COMPARISON

DOCKET NO. SW-02519A-06-0015
SCHEDULE WAR - 6

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) VALUE LINE PROJECTED DPS	(C) VALUE LINE PROJECTED BVPS	(D) VALUE LINE HISTORIC EPS	(D) VALUE LINE HISTORIC DPS	(D) VALUE LINE HISTORIC BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) 5 - YEAR COMPOUND HISTORY DPS	(F) 5 - YEAR COMPOUND HISTORY BVPS
1	AWR	6.81%	6.00%	8.00%	1.00%	5.00%	-1.00%	1.00%	4.50%	3.50%	-0.37%	0.85%	4.43%
2	CWT	6.10%	9.00%	4.50%	1.00%	5.00%	-4.00%	1.00%	1.50%	2.57%	11.83%	0.44%	5.40%
3	SWWC	7.80%	5.50%	18.00%	8.00%	7.00%	1.50%	10.00%	14.00%	9.14%	-5.15%	9.33%	14.02%
4	WTR	7.34%	9.00%	11.00%	10.00%	8.00%	8.50%	6.50%	11.00%	9.14%	8.62%	7.46%	11.00%
5				10.38%	5.00%	6.25%	1.25%	4.63%	7.75%		3.73%	4.52%	8.71%
6	AVERAGES	7.01%	7.38%		7.21%			4.54%		6.09%		5.65%	

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) VALUE LINE PROJECTED DPS	(C) VALUE LINE PROJECTED BVPS	(D) VALUE LINE HISTORIC EPS	(D) VALUE LINE HISTORIC DPS	(D) VALUE LINE HISTORIC BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) 5 - YEAR COMPOUND HISTORY DPS	(F) 5 - YEAR COMPOUND HISTORY BVPS
1	ATG	4.04%	4.50%	4.00%	6.50%	6.00%	13.50%	2.00%	8.50%	6.43%	13.39%	4.74%	12.16%
2	CGC	2.41%	-	8.50%	0.50%	10.50%	-3.50%	-	-	4.00%	-13.58%	0.00%	-1.44%
3	LG	4.85%	-	7.00%	2.00%	5.00%	4.50%	0.50%	2.50%	3.58%	4.23%	0.56%	3.20%
4	NWN	4.40%	5.30%	7.00%	4.00%	3.50%	3.00%	1.00%	3.50%	3.90%	2.93%	1.37%	3.47%
5	PGL	2.66%	4.00%	5.00%	1.00%	-1.50%	1.00%	2.00%	2.00%	1.93%	-8.04%	1.67%	-2.05%
6	SJI	6.53%	5.70%	7.00%	6.00%	6.00%	11.50%	2.50%	13.00%	7.39%	10.43%	3.83%	14.66%
7	SWX	6.70%	6.00%	8.50%	-	3.00%	1.50%	-	4.00%	4.60%	1.90%	0.00%	1.87%
8	WGL	4.08%	4.00%	2.00%	2.00%	4.00%	6.00%	1.50%	3.00%	3.21%	2.93%	1.17%	2.32%
9				6.13%	3.14%	4.56%	4.69%	1.58%	5.21%		1.77%	1.67%	4.27%
10	AVERAGES	4.46%	4.92%		4.61%			3.83%		4.38%		2.57%	

REFERENCES:
COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/28/2006 (WATER COMPANIES) AND 03/17/2006 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/28/2006 (WATER COMPANIES) AND 03/17/2006 (NATURAL GAS LDC's)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1, 3, 5 AND 7
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 04/28/2006 (WATER COMPANIES) AND 03/17/2006 (NATURAL GAS LDC's)

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+	[	(A) ß	x	(	r_m	-	r_f	)	]	=	(B) EXPECTED RETURN
1	AWR	k	=	4.74%	+	[	0.70	x	(	10.40%	-	4.74%	)	]	=	8.70%
2	CWT	k	=	4.74%	+	[	0.75	x	(	10.40%	-	4.74%	)	]	=	8.99%
3	SWWC	k	=	4.74%	+	[	0.70	x	(	10.40%	-	4.74%	)	]	=	8.70%
4	WTR	k	=	4.74%	+	[	0.80	x	(	10.40%	-	4.74%	)	]	=	9.27%
5	**WATER COMPANY AVERAGE**						0.74									8.92%
6	ATG	k	=	4.74%	+	[	0.90	x	(	10.40%	-	4.74%	)	]	=	9.83%
7	CGC	k	=	4.74%	+	[	0.80	x	(	10.40%	-	4.74%	)	]	=	9.27%
8	LG	k	=	4.74%	+	[	0.80	x	(	10.40%	-	4.74%	)	]	=	9.27%
9	NWN	k	=	4.74%	+	[	0.70	x	(	10.40%	-	4.74%	)	]	=	8.70%
10	PGL	k	=	4.74%	+	[	0.85	x	(	10.40%	-	4.74%	)	]	=	9.55%
11	SJI	k	=	4.74%	+	[	0.65	x	(	10.40%	-	4.74%	)	]	=	8.42%
12	SWX	k	=	4.74%	+	[	0.80	x	(	10.40%	-	4.74%	)	]	=	9.27%
13	WGL	k	=	4.74%	+	[	0.80	x	(	10.40%	-	4.74%	)	]	=	9.27%
14	**NATURAL GAS LDC AVERAGE**						0.78									9.20%

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\ ß\ (r_m - r_f)\ ]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 04/14/2006 THROUGH 05/19/2006 WAS USED AS A RISK FREE RA OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2006 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+	[	(A) ß	x	(	r_m	-	r_f	)	]	=	(B) EXPECTED RETURN
1	AWR	k	=	4.74%	+	[	0.70	x	(	12.30%	-	4.74%	)	]	=	10.03%
2	CWT	k	=	4.74%	+	[	0.75	x	(	12.30%	-	4.74%	)	]	=	10.41%
3	SWWC	k	=	4.74%	+	[	0.70	x	(	12.30%	-	4.74%	)	]	=	10.03%
4	WTR	k	=	4.74%	+	[	0.80	x	(	12.30%	-	4.74%	)	]	=	10.79%
5	**WATER COMPANY AVERAGE**						0.74									10.32%
6	ATG	k	=	4.74%	+	[	0.90	x	(	12.30%	-	4.74%	)	]	=	11.54%
7	CGC	k	=	4.74%	+	[	0.80	x	(	12.30%	-	4.74%	)	]	=	10.79%
8	LG	k	=	4.74%	+	[	0.80	x	(	12.30%	-	4.74%	)	]	=	10.79%
9	NWN	k	=	4.74%	+	[	0.70	x	(	12.30%	-	4.74%	)	]	=	10.03%
10	PGL	k	=	4.74%	+	[	0.85	x	(	12.30%	-	4.74%	)	]	=	11.17%
11	SJI	k	=	4.74%	+	[	0.65	x	(	12.30%	-	4.74%	)	]	=	9.66%
12	SWX	k	=	4.74%	+	[	0.80	x	(	12.30%	-	4.74%	)	]	=	10.79%
13	WGL	k	=	4.74%	+	[	0.80	x	(	12.30%	-	4.74%	)	]	=	10.79%
14	**NATURAL GAS LDC AVERAGE**						0.78									10.69%

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\ ß\ (r_m - r_f\ )\ ]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 04/14/2006 THROUGH 05/19/2006 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2006 YEARBOOK.

GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. SW-02519A-06-0015
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 $)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.40%	1.90%	10.01%	6.98%	8.10%	7.49%	8.61%	9.86%	10.06%
2	1991	4.21%	-0.20%	8.46%	5.45%	5.69%	5.38%	8.14%	9.36%	9.55%
3	1992	3.01%	3.30%	6.25%	3.25%	3.52%	3.43%	7.67%	8.69%	8.86%
4	1993	2.99%	2.70%	6.00%	3.00%	3.02%	3.00%	6.60%	7.59%	7.91%
5	1994	2.56%	4.00%	7.14%	3.60%	4.20%	4.25%	7.37%	8.31%	8.63%
6	1995	2.83%	2.50%	8.83%	5.21%	5.84%	5.49%	6.88%	7.89%	8.29%
7	1996	2.95%	3.70%	8.27%	5.02%	5.30%	5.01%	6.70%	7.75%	8.17%
8	1997	1.70%	4.50%	8.44%	5.00%	5.46%	5.06%	6.61%	7.60%	8.12%
9	1998	1.60%	4.20%	8.35%	4.92%	5.35%	4.78%	5.58%	7.04%	7.27%
10	1999	2.70%	4.50%	7.99%	4.62%	4.97%	4.64%	5.86%	7.62%	7.88%
11	2000	3.40%	3.70%	9.23%	5.73%	6.24%	5.82%	5.94%	8.24%	8.36%
12	2001	1.60%	0.80%	6.92%	3.41%	3.88%	3.38%	5.95%	7.59%	8.02%
13	2002	2.40%	1.60%	4.67%	1.17%	1.66%	1.60%	5.38%	7.41%	7.98%
14	2003	1.90%	2.70%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	3.30%	4.20%	4.34%	2.35%	1.35%	1.37%	5.03%	5.77%	6.20%
16	2005	3.20%	3.50%	6.16%	4.16%	3.16%	3.17%	4.57%	5.38%	5.78%
17	CURRENT	2.20%	3.30%	8.00%	6.00%	5.00%	4.82%	5.17%	6.28%	6.59%

REFERENCES:
COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (F): CURRENT, THE WALL STREET JOURNAL, DATED 05/26/2006
COLUMN (G) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 05/26/2006
COLUMN (H) THROUGH (J): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS

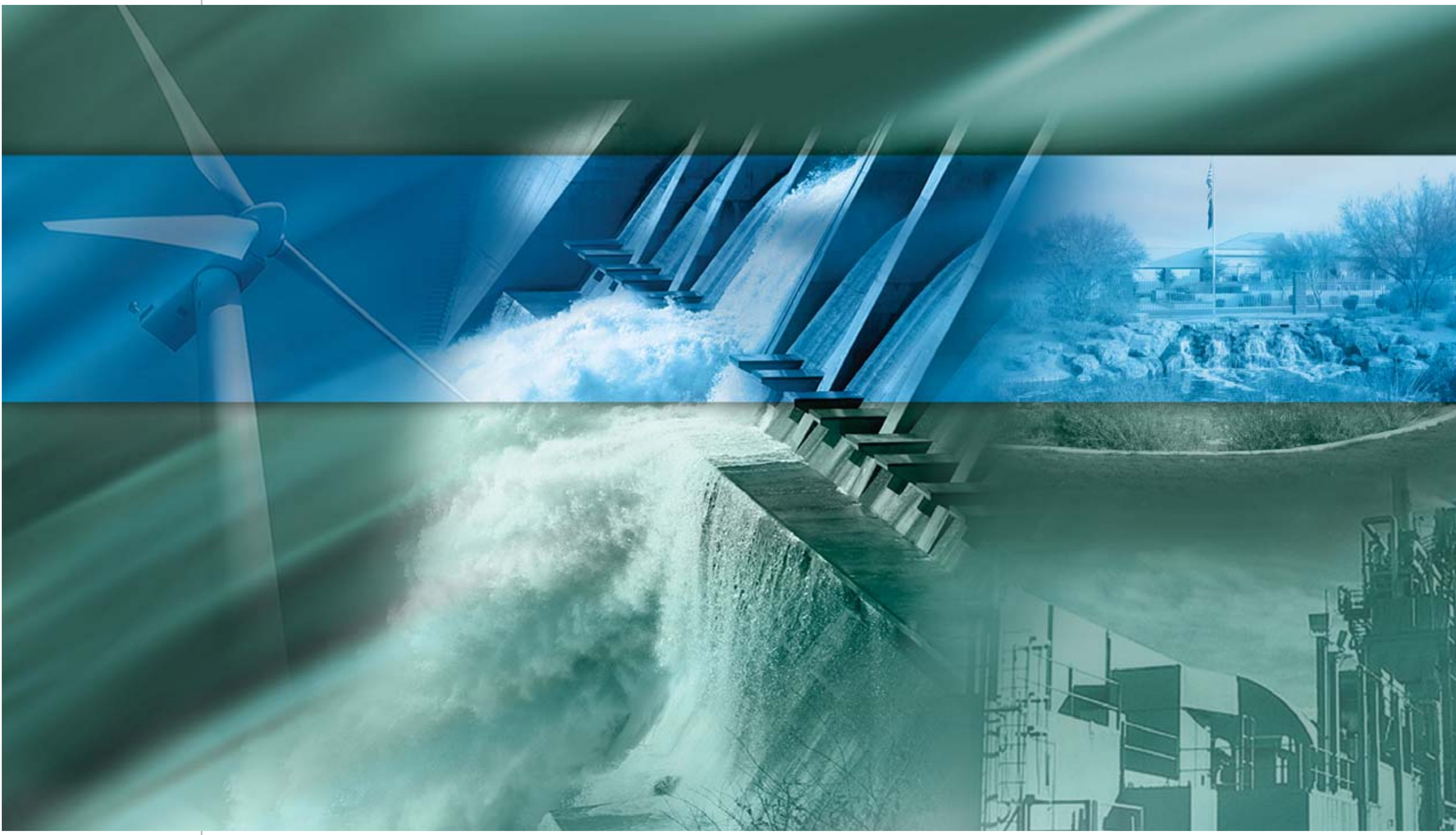
GOLD CANYON SEWER COMPANY
TEST YEAR ENDED OCTOBER 31, 2005
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. SW-02519A-06-0015
SCHEDULE WAR - 9

LINE NO.		AWR	PCT.	CWT	PCT.	SWWC	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1	DEBT	$ 268.4	50.4%	$ 274.1	48.0%	$ 117.6	44.7%	$ 878.4	52.0%	$ 384.6	50.3%
2											
3	PREFERRED STOCK	0.0	0.0%	3.5	0.6%	0.5	0.2%	0.0	0.0%	1.0	0.1%
4											
5	COMMON EQUITY	264.1	49.6%	293.9	51.4%	144.8	55.1%	811.9	48.0%	378.7	49.5%
6											
7	TOTALS	$ 532.5	100%	$ 571.5	100%	$ 262.9	100%	$ 1,690.3	100%	$ 764.3	100%
8											
9											
10		ATG	PCT.	CGC	PCT.	LG	PCT.	NWN	PCT.		
11											
12	DEBT	$ 1,615.0	51.9%	$ 173.8	59.4%	$ 340.5	48.1%	$ 521.5	47.0%		
13											
14	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.9	0.1%	0.0	0.0%		
15											
16	COMMON EQUITY	1,499.0	48.1%	118.6	40.6%	366.5	51.8%	586.9	53.0%		
17											
18	TOTALS	$ 3,114.0	100%	$ 292.4	100%	$ 707.9	100%	$ 1,108.4	100%		
19											
20										NATURAL GAS LDC	
21		PGL	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.	AVERAGE	PCT.
22											
23	DEBT	$ 800.2	47.9%	$ 328.9	48.7%	$ 1,224.9	59.0%	$ 584.2	38.8%	$ 698.6	50.1%
24											
25	PREFERRED STOCK	0.0	0.0%	1.6	0.2%	100.0	4.8%	28.2	1.9%	16.3	1.2%
26											
27	COMMON EQUITY	870.1	52.1%	344.4	51.0%	751.1	36.2%	894.0	59.3%	678.8	48.7%
28											
29	TOTALS	$ 1,670.3	100%	$ 674.9	100%	$ 2,076.0	100%	$1,506.4	100%	$ 1,393.8	100%

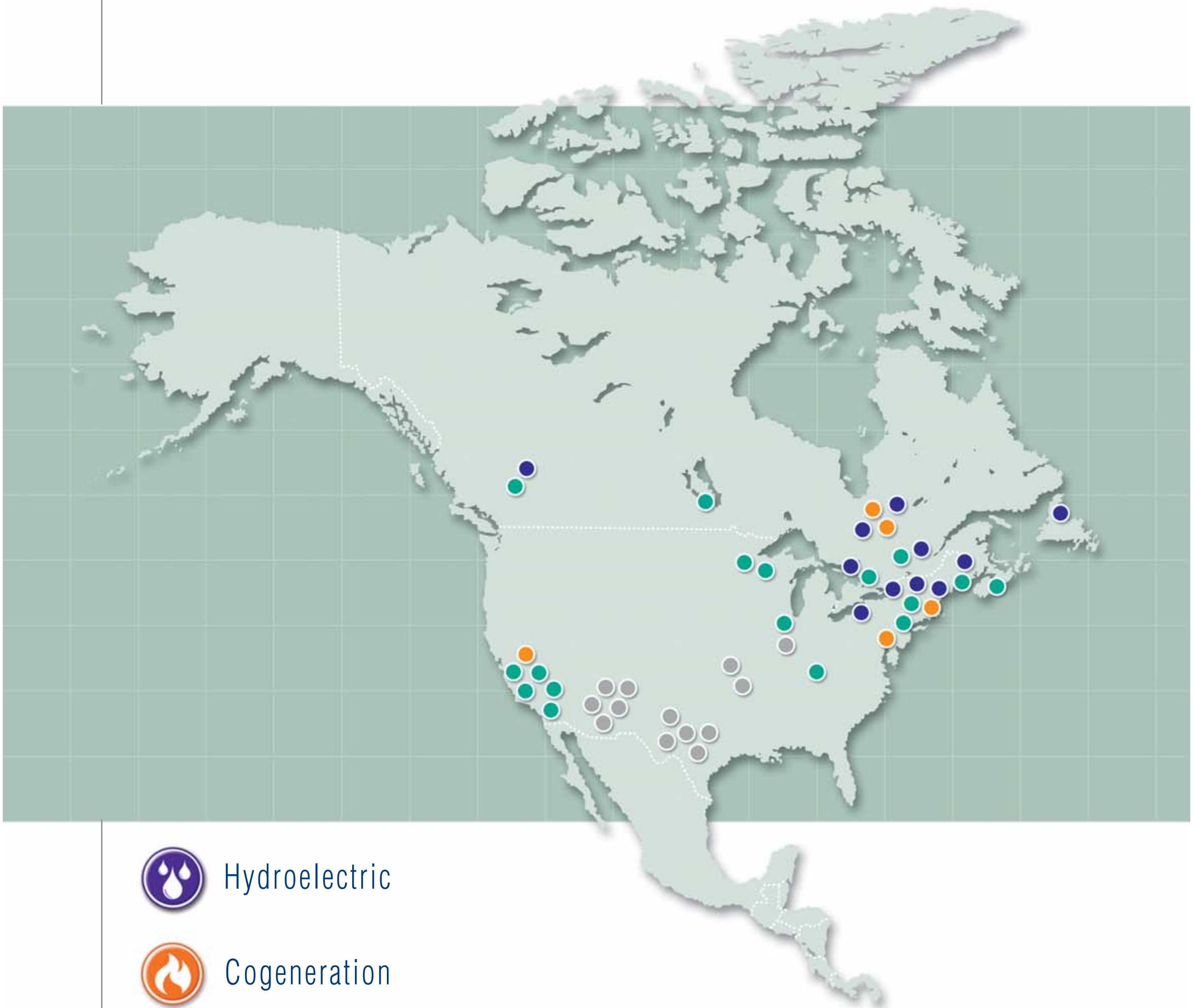
REFERENCE:
MOST RECENT SEC 10-K FILINGS

ATTACHMENT A



ANNUAL REPORT **2005**

Algonquin Power Income Fund




Hydroelectric
Cogeneration
Alternative Fuels
Infrastructure

Algonquin Power
Income Fund

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2005 ANNUAL REPORT

Algonquin Power Income Fund

Algonquin Power Income Fund is an open-ended investment trust that owns or has interests in a diverse portfolio of power generating and infrastructure assets across North America, including 48 hydroelectric facilities, five natural gas-fired cogeneration facilities, 17 alternative fuels facilities and 15 water reclamation and distribution facilities. Algonquin Power was established in 1997 to provide unitholders with sustainable, highly stable and growing cash flows through a diversified portfolio of energy and infrastructure assets. The Fund's units and convertible debentures are traded on the Toronto Stock Exchange under the symbols APF.UN and APF.DB, respectively.

Rawdon, Québec

Sanger, California

Algonquin Power Energy-from-Waste, Ontario

Litchfield Park Service Company, Arizona

Financial Highlights

	2005	2004	2003	2002	2001	2000
Energy Sales						
Hydroelectric	44,102	43,268	44,413	40,681	36,270	43,996
Cogeneration	75,674	71,846	61,890	23,566	-	-
Alternative Fuels	16,262	7,867	6,423	4,994	1,020	-
Total Energy Sales	136,038	122,981	112,726	69,241	37,290	43,996
Waste Disposal	13,031	14,086	14,650	10,697	-	-
Water Distribution/Reclamation	28,371	23,456	20,237	7,974	2,522	-
Other Revenue	1,884	-	-	-	-	-
Total Revenue	179,324	160,523	147,613	87,912	39,812	43,996
Operating Profit						
Hydroelectric	28,344	26,383	29,045	26,985	24,835	33,351
Cogeneration	28,207	25,273	23,773	15,069	1,166	-
Alternative Fuels	10,773	8,181	9,328	7,292	719	-
Infrastructure	16,568	12,616	11,117	4,678	1,199	-
Other	139	4,373	278	851	2,530	1,063
Total Operating Profit	84,031	76,826	73,541	54,875	30,449	34,414
Earnings (before int exp, write-down of fixed and intangible assets)	44,304	40,276	53,147	26,726	18,662	23,937
Net earnings	21,788	22,802	44,507	16,150	6,864	13,364
Net earnings per trust unit	0.31	0.33	0.66	0.28	0.17	0.54
Distribution to unitholders	64,061	63,370	62,402	55,192	37,302	24,755
per trust unit	0.92	0.92	0.92	0.92	0.92	0.97
Cash available for distribution	64,892	59,887	58,368	44,742	28,813	19,235
per trust unit	0.93	0.87	0.86	0.77	0.73	0.78
Balance Sheet Data						
Cash and cash equivalents	11,363	34,348	21,238	24,838	31,713	9,580
Working capital	2,931	17,242	9,337	15,376	19,011	2,024
Capital and intangible assets and long term investments	761,989	742,994	751,904	674,495	467,312	310,056
Total Assets	823,801	824,796	808,624	723,038	512,384	328,502
Long-term liabilities and revolving credit facility (includes convertible debentures and current portion)	243,007	206,017	166,713	86,099	50,665	73,244
Unitholders equity	452,998	495,271	519,876	537,771	411,613	219,559
Number of units outstanding as of December 31	69,691,592	69,691,592	67,887,612	67,887,612	50,875,772	27,020,472

Report to Unitholders

In 2005 the fund achieved positive asset growth and operational performance, enhancing unitholder value.

2005 Achievements

- Revenue increased to $179.3 million from $160.5 million
- Cash available for distribution increased to $64.9 million from $59.9 million
- Cash available for distribution per trust unit increased to $0.93 from $0.87
- Algonquin Power Income Fund distributed $0.92 per trust unit during 2005, consistent with 2004

Strong by nature

Algonquin Power Income Fund had a strong year in 2005 as the Fund's exceptional group of employees and associates, along with a diversified portfolio of power generation and infrastructure assets, delivered a solid year of financial results.

The diversification strategy has been a strong focus since 2001, and has provided the Fund with an asset balance across four divisions, delivering reliable, strong overall performance. This is evident in the Fund's historical performance of steadily increasing cash available for distribution, which has grown by an average of 6% per trust unit annually since 2001.

In last year's Report to Unitholders, I wrote about the Fund's commitment to improve the performance of existing assets and to identify and secure accretive acquisitions to build the stability of distributions to unitholders, balance risk and enhance growth opportunities. I can say with confidence, that the year 2005 was very successful in this respect, with the Fund announcing several acquisitions and new projects over the course of the year.

In January 2005, the Fund announced the acquisition of eight infrastructure facilities, expanding the division into Texas, Missouri, and Illinois, and growing the number of customer connections by approximately 5,000 to a total nearing 50,000 connections. Later in the year, one additional facility in Arizona was added to the Infrastructure Division, bringing the total number of customer connections to more than 56,000. The division continues to provide attractive returns while maintaining stability through a regulated utility environment.

During the third quarter of 2005, the Fund's hydroelectric division completed the purchase of Beaver Falls Hydroelectric Generating Station, a 2.5 MW hydroelectric facility located near Beaver Falls, New York. This asset was operational in the first quarter of 2006 and is expected to be accretive to the Fund, contributing to the growing levels of cash available for distribution.

In the Alternative Fuels Division in 2005, the Fund continued to work on improving production at the Algonquin Power Energy-from-Waste facility. Some of the actions taken included the hiring of a new facility manager and improvements to equipment that had been limiting production. These actions resulted in improving waste processing to expected levels by the end of the year. The Fund's Alternative Fuels Division also continued its commitment to lend

$74.4 million as subordinated debt to AirSource Power Fund I LP, the owner of a 99 MW wind farm in southern Manitoba. AirSource is utilizing the funds along with equity raised ($65 million) and other senior and subordinated debt to build a $210 million wind power project in southern Manitoba. The project is scheduled for completion in early 2006.

In addition to the operational events of 2005, Algonquin Power Income Fund was added to the S&P/TSX Composite Index effective after the close of business on Friday, December 16, 2005. Inclusion in the S&P/TSX Composite Index reflects the growth and stability the Fund has achieved over the past few years. The Fund is honoured to be keeping company with Canada's top performing enterprises.

Financial Review – A Mature Balance

As the Fund continues to mature, growing in strength and confidence throughout each of the Fund's four divisions, a new focus is emerging toward enhancing the Fund's existing assets and strengthening the balanced foundation on which the Fund is based.

The Fund's asset distribution remains stable across the four divisions with hydroelectric generation making up 36% of the asset base, natural gas cogeneration at 18%, alternative fuels at 20% and infrastructure assets including water distribution and water reclamation facilities making up 25% of the Fund's asset mix.

For the year 2005, the Fund's assets generated total revenue of $179.3 million, growing 11.7% over revenue of $160.5 million in 2004.

Net earnings for 2005 were $21.8 million, compared to $22.8 million in net earnings for 2004. On a per unit basis, the Fund generated $0.31 per unit compared to $0.33 per unit for 2004.

Cash available for distribution during 2005 reached $64.9 million compared to $59.9 million in 2004. On a per unit basis, the Fund generated $0.93 per unit by the end of 2005, compared to $0.87 per unit in 2004, marking a significant milestone for the Fund.

Confidence moving forward

Over the past few years, the Fund has focused on becoming more diversified across technologies and geographies to gain financial strength and stability. Although these strategies continue to be a very strong theme for the Fund, the primary focus of Algonquin Power Income Fund in the coming year is to build on the balance and strength the Fund has achieved over the past few years while seeking new business initiatives that will create accretive opportunities for the Fund. As always, the underlying motivation continues to be the enhancement of unitholder value.

The Fund will continue to improve the performance of existing assets with a focused and disciplined approach, and foster organic growth through the effective management of the four operating divisions. Stability for the Fund has been and will always be the basis for key decisions regarding the Fund business.

To the Fund's unitholders, employees and associates, your continued interest, support, and commitment to the Fund is appreciated in all aspects of the Fund's business. I look forward to another year of delivering on the Fund's potential and working to exceed our performance objectives.

Ken Moore
Chairman

Algonquin Power Divisions

Four divisions provide technical, geographic,

Hydroelectric

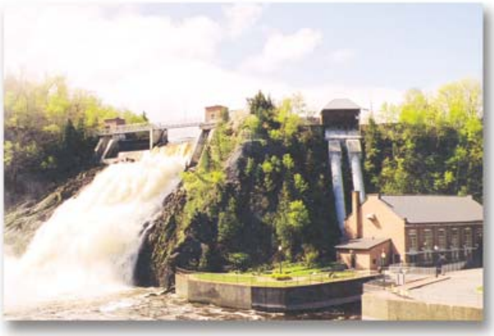
The Hydroelectric Division is comprised of 48 run-of-river hydroelectric generating facilities located in Ontario, Quebec, New York, New England, and Alberta. These facilities primarily operate based on natural river flows without storing water for later use. The Division's gross revenue is derived from the combination of energy production and power purchase rates. Benefits of these facilities include low operating costs, proven technology, and virtually perpetual asset life. Combined with long-term power purchase agreements, these benefits provide the Fund with strong assets that deliver predictable cash flows.

Cogeneration

Algonquin Power has an interest in two and owns and operates three cogeneration facilities located in Ontario, New Jersey, California and Connecticut. Cogeneration is the simultaneous production of electricity and thermal energy from a single fuel source, in this case, natural gas. Revenue is generated through the sale of this thermal energy and electricity. Benefits of cogeneration technology include predictable generation, low technology risk and long term power purchase agreements. Cogeneration facilities are not subject to environmental fluctuations and therefore provide efficient and predictable cash flows to the Fund.

48 hydroelectric facilities, 143 MW, average power purchase agreement life of 13 years.

Five natural gas fired cogeneration facilities, 248 MW, average power purchase agreement life of 9.2 years.



Rivière-du-Loup, Québec

Windsor Locks, Connecticut

and regulatory diversification.

Alternative Fuels

The Alternative Fuels Division consists of a 500-tonne/day energy-from-waste facility in Ontario and investment interests in approximately 70 MW of production in Alberta, Quebec and Nova Scotia. The Division acquired an interest in 12 landfill gas-powered generating stations in the United States, representing approximately 36 MW of installed capacity during 2004.

The Division has also provided a commitment for a total of approximately $74 million of subordinated debt to the owner of a wind energy project in Southern Manitoba.

Revenue is generated from the sale of electricity, fees at the energy-from-waste facility, and interest and investment income from the other assets.

Infrastructure

The Infrastructure Division includes 15 regulated water distribution and water reclamation facilities located in Arizona, Texas, Illinois and Missouri. Revenue is generated from the sale of water and the treatment of waste water. Infrastructure facilities offer a captive customer base within a regulated environment. These infrastructure assets are ideal for the Fund as they represent an asset class which produces stable, predictable, long-lived cash-flows.

During 2005, management completed the acquisition of nine facilities serving approximately 12,000 customers located in Arizona, Illinois, Missouri, and Texas. The Infrastructure Division experienced approximately 9% organic growth in 2005, and management expects the organic growth rate to continue into 2006.

17 alternative fuels facilities, 211 MW, average power purchase life of 13.5 years.

Prima Deschecha, California

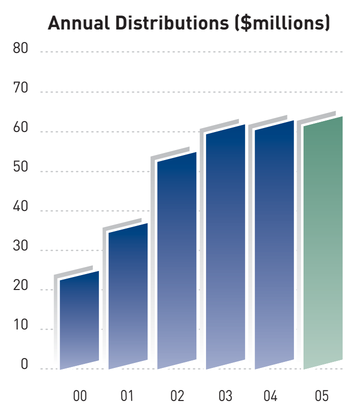
15 infrastructure facilities, over 56,000 connections.

Black Mountain Sewer Company, Arizona

Strength and Stability

A strong history of diversification has resulted in a well balanced portfolio.

In 2001, the Fund identified the requirement to diversify its asset portfolio in order to create a balanced, lower risk operating environment in which to provide stability and predictability to unitholders of the Fund. Prior to diversification, dating back to 1997, the Fund owned 14 run-of-river hydroelectric generating assets. Since 2001, the Fund has sought out accretive acquisitions in order to introduce additional generating technologies, and diverse geographies and regulatory environments. The Fund's experienced team of industry professionals is organized in a divisional management structure to focus on operational performance, synergies and economies of scale in each of the Fund's four divisions. The result: a balanced, predictable business with stable cash distributions to unitholders.



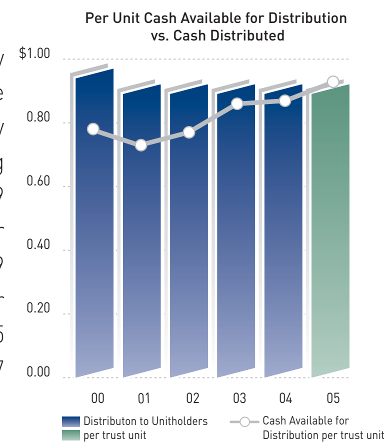
Power Purchase Agreements and Rate Cases

Power generated by the Hydroelectric, Cogeneration, and Alternative Fuels Divisions is sold based on power purchase agreements held for each generating facility. The agreements range in length, and on a weighted average basis, power purchase agreements in place have an average span of 12 years. In the Infrastructure Division, rates paid by end consumers are determined by appealing a rate case to the regulatory body in which each facility resides, and are renegotiated periodically based on capital expenditures and anticipated rates of return.

Power purchase agreements have been and continue to be a strong asset for the Fund and contribute to long term returns and viability of the facilities. Rates in the Infrastructure Division contribute to stability in rates of return in the growing regions where the Fund's facilities are located.

Cash Available for Distribution

The Fund's strength and stability is evident through cash available for distribution generated by the diverse asset portfolio. During 2005, the Fund generated $64.9 million of cash available for distribution compared to $59.9 million in 2004. Cash available for distribution per trust unit in 2005 was $0.93 compared to $0.87 in 2004.

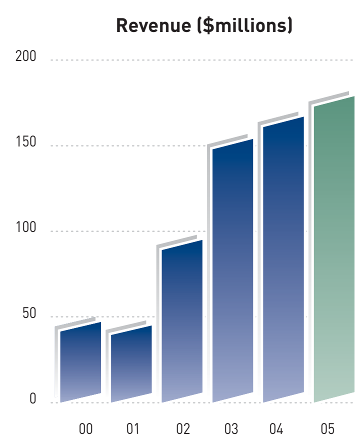


Balance

Fund Assets

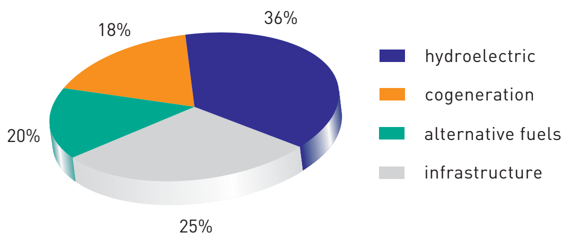
Over the past few years, the Fund has improved overall risk exposure inherent in natural resource-based power generation, resulting in sustainable cash distributions during 2005. The move toward a more stable structure is also evident through revenue growth and operating profit for the Fund.

Throughout 2005, the Fund continued to diversify its asset portfolio by adding nine water distribution and reclamation facilities in Texas, Missouri, Illinois and Arizona, and one hydroelectric generating



(L to R) The Management Group
Peter Kampian, Chief Financial Officer;
Ian Robertson, Executive Director, Business Development;
Chris Jarratt, Executive Director, Operations;
David Kerr, Executive Director, Safety and Environmental Compliance

facility located in New York State. At the end of 2005, the Fund's assets were strategically deployed with 36% hydroelectric generation, 18% natural gas cogeneration, 20% alternative fuels, and 25% water distribution and reclamation in the Infrastructure Division.



Since inception, Algonquin Power Income Fund has grown from owning strictly hydroelectric generating assets to having a well balanced, diversified portfolio of generating and infrastructure assets that provide unitholders with stable, predictable distributions.

Confidence

Opportunities for the Future

The strategic diversification in asset allocation has created greater balance in the Fund, providing increased stability in cash distributions and a strong basis on which to move toward new opportunities in the future. Financial leverage continues to be low at 31%, and the Fund has maintained a Standard and Poor's stability rating of SR-2 (very high) for the sixth consecutive year.

For 2006, the Fund will continue to seek long-lived assets with low operating costs, low risk technology, and stipulated rate revenues from long-term power purchase agreements.

Management will continue to focus on improving the performance of Fund assets throughout 2006, particularly in the Alternative Fuels Division where several programs have been initiated including the implementation of preventative repair and maintenance programs, process changes, and various management improvement programs which are expected to result in reduced costs of operating the facilities.

Hydrology remains a fluctuating element in the Hydroelectric Division, however by the fourth quarter of 2005 hydrology rose above long-term averages, continuing into 2006. The Fund anticipates higher levels of hydrology to continue throughout the first two quarters of 2006, providing generating levels above long-term averages. In addition, the Fund expects to continue seeing higher market rates for power in New York and New England regions where the Fund owns hydroelectric generating assets.

During 2005, the Fund provided a commitment for a total of $74.4 million in subordinated debt to AirSource Power Fund I LP, which is undertaking the completion of a 99 MW wind-powered generating facility near St. Leon, Manitoba. The facility will sell its output to Manitoba Hydro pursuant to a 25 year power purchase agreement. The transaction represents the Fund's entry into the fast-growing wind power generation industry which, similar to hydroelectric energy, generates electrical energy from a renewable natural resource.

At the end of 2005, the Fund took an opportunity to stop the gas turbine at the Sanger facility and sell the fixed price natural gas normally consumed by the facility at favourable fixed prices. This opportunity will continue until May 2006, and as a result, increased profits for the facility are expected for the first four months of 2006. During 2006, the Fund also plans to evaluate the replacement of the existing gas turbine at the Sanger facility with a newer, more efficient unit. Benefits of replacing the turbine could include higher efficiency, lower fuel costs, and greater ease of maintenance as well as supplying additional capacity and energy demands to the California energy market above and beyond the existing capacity of the plant.

Corporate Governance

Ensuring the trust of unitholders

The Trustees of Algonquin Power Income Fund have taken steps to ensure that unitholders are well protected by approving and implementing clear Corporate Governance standards and practices. At least annually, the trustees, in conjunction with their duties as members of the corporate governance committee, review the Fund's approach to Corporate Governance. A summary of these guidelines is offered below.

Independence

The Board of Trustees is comprised of three Trustees who are independent of the Fund. The Trustees establish independence standards in accordance with the requirements of the Toronto Stock Exchange and other provincial securities regulations. At least annually, the independence of each trustee is determined in accordance with these standards.

Trustee Committees, Charters and Evaluation

The trustees have established the following committees of the trustees: the audit committee and the corporate governance committee, comprised of all of the trustees. The trustees have approved charters for each committee and at least annually, each charter is reviewed and amended based on recommendations of the corporate governance committee and the chair of the trustees. In addition, the trustees evaluate and review the performance of the trustees, each of its committees, and the adequacy of the Corporate Governance mandate.

Trustee Meetings

Regular meetings of the Trustees are held at least quarterly to review financial and operational results, and monthly to determine and approve cash distributions to unitholders. At least annually, the Trustees hold meetings at which Fund Managers are not present.

Access to Management and Outside Advisors.

The Trustees have unrestricted access to the management and employees of the Fund, its subsidiary entities and the manager and employees of Algonquin Power Systems Inc. whose duties include providing services to the Fund and Fund entities. At the Fund's expense, the Trustees have the authority to retain external legal counsel, consultants or other advisors to assist them in fulfilling their responsibilities.

Strategic Planning and Business Plans

At least annually, the trustees review and if advisable, approve the Fund's strategic planning process, short and long term strategic plans, and business plans prepared by the Fund Manager in light of emerging trends, the competitive environment, risk issues and significant business practices. Periodic reviews and amendments to plans may occur at any time each year according to changes in the Fund's business climate.

Integrity of Financial Information

The trustees, in conjunction with their duties as members of the audit committee, review the integrity of the Fund's financial information and systems, the effectiveness of internal controls and Management's assertions on internal control and disclosure control procedures.

Risk management

At least annually, the Trustees review reports provided by the Manager of material risks associated with the businesses and operations of the Fund's subsidiary entities, review the implementation by the Manager of systems to manage these risks and review reports by the Manager relating to the operation of and any material deficiencies in these systems.

Verification of Controls

The trustees verify that internal financial, non-financial and business control and information systems have been established by the Managers and that the Fund is applying appropriate standards of corporate conduct for these controls.

Human Resource Management

At least annually, the Trustees with the assistance of the Manager, review the Fund's approach to human resource management and executive compensation, succession plans for the chair of the trustees and the senior management of the Fund, and verify the integrity of the Manager and its principals.

Ethics Reporting

At least annually, the Trustees review reports provided by the Manager relating to compliance with, or material deficiencies of the Fund's code of business conduct and ethics.

Communications and Disclosure

The trustees, in conjunction with the Manager review the Fund's overall communications strategy, including measures for receiving feedback from the Fund's unitholders, and management's compliance with the Funds' disclosure policies and procedures.

(L to R) The Trustees: George Steeves, Christopher Ball, and Ken Moore

Management's Discussion and Analysis

(All figures are in thousands of dollars, except per unit values)

Algonquin Power Income Fund (the "Fund") has prepared the following discussion and analysis to provide information to assist its Unitholders' understanding of the financial results for the twelve months ended December 31, 2005. This discussion and analysis should be read in conjunction with the Fund's audited consolidated financial statements for the years ended December 31, 2005 and 2004 and the notes thereto. This material is available on SEDAR at www.sedar.com and on the Fund's website at www.AlgonquinPower.com. Additional information about the Fund, including the Renewal Annual Information Form for the year ended December 31, 2005 can be found on SEDAR at www.sedar.com.

This management's discussion and analysis is based on information available to management as of March 7, 2006.

Rattle Brook, Newfoundland

Forward-Looking Disclaimer

Certain statements contained in the information herein are forward-looking and reflect the views of the Fund and Algonquin Power Management Inc. (the "Manager") with respect to future events. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Forward-looking statements are not guarantees of the Fund's future performance or results and are subject to various factors, including, but not limited to, assumptions such as those relating to: the performance of the Fund's assets, commodity market prices, interest rates, and environmental and other regulatory requirements. Although the Fund and its Manager believe that the assumptions inherent in these forward-looking statements are reasonable, undue reliance should not be placed on these statements, which apply only as of the dates hereof. The Fund and its Manager are not obligated nor do either of them intend to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

St. Leon Wind Energy Substation, Manitoba

Key Financial Information

	Three Months ended December 31		Year ended December 31		
	2005	2004	**2005**	2004	2003
Revenue	**$ 50,918**	$ 40,726	**$ 179,324**	$ 160,523	$ 147,613
Net earnings	**8,917**	(86)	**21,788**	22,802	44,507
Distribution to unitholders	**16,016**	16,016	**64,061**	63,370	62,402
Cash available for distribution	**19,468**	12,685	**64,891**	59,887	58,368
Per unit					
Net earnings	**0.13**	0.00	**0.31**	0.33	0.66
Distribution to unitholders	**0.23**	0.23	**0.92**	0.92	0.92
Cash available for distribution*	**0.28**	0.18	**0.93**	0.87	0.86

* Non-GAAP measurement, see 'Cash Available for Distribution' in this management's discussion and analysis.

For the quarter ended December 31, 2005, the Fund reported total revenue of $50.9 million as compared to $40.7 million for the same period in 2004. Revenue for the fourth quarter of 2005 increased due to strong hydrology experienced in the Hydroelectric Division combined with improved average energy rates, primarily in New England and New York regions, improved production and average energy prices at the Cogeneration Division's Windsor Locks facility and the Fund's decision to close the Sanger facility for a six month period and sell natural gas at favourable rates. Additionally, the Alternative Fuels Division experienced improved energy production, greater levels of waste processed at its Algonquin Power Energy-from-Waste ("EFW") facility and higher average energy rates, and the Infrastructure Division experienced strong organic growth combined with new water distribution and water reclamation facilities purchased during the year. These factors resulted in increased revenue from the same period in the prior year. These amounts were partially offset by lower production in the Crossroads facility and a stronger Canadian dollar as compared to the same period in 2004.

For the quarter ended December 31, 2005, the average US exchange rate dropped by approximately 5% from the same period in 2004. For the year ended December 31, 2005, the average US exchange rate dropped by approximately 7.5% from the same period in 2004. As such, any quarterly or annual variance to revenue or expenses, in local currency, at one of the Fund's US entities may be distorted by a change in the average exchange rate, upon conversion to the Fund's reporting currency. Although the stronger Canadian dollar has an impact on both revenue and expenses generated by its US subsidiaries, the Fund has foreign exchange hedges in place, which mitigate the impact on cash available for distribution.

For the year ended December 31, 2005, the Fund reported revenue of $179.3 million as compared to $160.5 million for the same period in 2004. Revenue for the year ended December 31, 2005 increased due to improved average energy rates in the Hydroelectric Division, primarily in New England and New York regions, improved production and energy rates experienced at the Cogeneration Division's Windsor Locks facility, combined with no unplanned gas turbine outages at the Sanger facility, (two unplanned outages occurred in fiscal 2004). Additionally, the Alternative Fuels Division and the Infrastructure Division generated increased revenue from the same period in the prior year due to the factors previously noted in the quarterly discussion. These amounts were partially offset by lower hydrology in the Hydroelectric Division, lower overall production in the Cogeneration Division as a result of the factors previously noted in the quarterly discussion, lower levels of waste processed at the EFW facility and a stronger Canadian dollar as compared to the same period in 2004.

For the quarter ended December 31, 2005, net earnings were $8.9 million as compared to a net loss of $0.1 million for the same period in 2004. Net earnings for the fourth quarter of 2005 increased from the same period in 2004 due to the factors impacting revenue as previously noted. In addition, the Alternative Fuels Division experienced greater interest and other income from its subordinated debt facility provided to AirSource Power Fund I LP ("AirSource") and the sale of the partnership interest in certain gas collection systems. These amounts were partially offset by increased interest expense and future income tax expense booked in the quarter. Net earnings for the year ended December 31, 2005 were $21.8 million, as compared to $22.8 million for the same period in 2004. On a year to date basis, net earnings fell as a result of the write down of $3.5 million related to the Crossroads facility, including the tax loss carry-forward associated with the facility, a reduced unrealized foreign exchange gain on US dollar denominated debt and higher interest expenses from the comparable period in the prior year. In addition, net earnings for the 2004 period increased due to the recognition of a one-time gain in an amount of $3.6 million on the prepayment of a note receivable. These factors were partially offset by the factors increasing divisional earnings previously noted and the write off related to the Joliet facility.

Net earnings per trust unit were $0.13 in the quarter ended December 31, 2005 as compared to $ nil in the same period in 2004. Net earnings per trust unit for the year ended December 31, 2005 were $0.31 as compared to $0.33 per trust unit for the same period in the prior year. The Fund generated $0.28 per trust unit of cash available for distribution for the quarter ended December 31, 2005, as compared to $0.18 per trust unit for the same period in 2004. During the fourth quarter of 2005, the Fund maintained distributions at $0.23 per trust unit, consistent with the same period in 2004.

The Fund generated $0.93 per trust unit of cash available for distribution for the year ended December 31, 2005 as compared to $0.87 for the same period in 2004. The Fund distributed $0.92 per trust unit, consistent with the same period in 2004.

The information in this Management's Discussion and Analysis is supplemental to and should be read in conjunction with the Fund's audited consolidated financial statements for the year ended December 31, 2005. The Fund's financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Fund's reporting currency is the Canadian dollar.

The term 'cash available for distribution' is used throughout this Management's Discussion and Analysis. Management uses this calculation to monitor the amount of cash generated by the Fund as compared to the amount of cash distributed by the Fund. 'Cash available for distribution' is not a recognized measure under accounting principles generally accepted in Canada. The Fund's method of calculating 'cash available for distribution' may differ from methods used by other companies and accordingly may not be comparable to similar measures presented by other companies. A calculation and analysis of 'cash available for distribution' can be found in this Management's Discussion and Analysis.

Significant Events and Transactions

The Fund completed the following significant transactions during 2005:

1. **Financing for AirSource Power Fund I LP**

   The Fund advanced funds on its total commitment of $74.4 million in subordinated debt to AirSource and subsidiary entities. AirSource is undertaking the completion of a 99 MW wind-powered generating facility near St. Leon, Manitoba which will sell its output to Manitoba Hydro pursuant to a 25 year power purchase agreement. The transaction represents the Fund's entry into the fast-growing wind power generation industry which, similar to hydroelectric energy, generates electrical energy from a renewable natural resource. The debt investment by the Fund ranks below $73.3 million in senior debt but in priority to the $65 million equity flow-through tax assisted financing completed by AirSource in November 2004.

The subordinated debt commitment to AirSource will earn interest at the annual rate of 11.19% prior to project completion. This yield will be reduced to 10.74% following project commissioning which is expected to occur by the end of the first quarter of 2006. At the end of 2005, the Fund had advanced a total of $20.5 million to AirSource, in addition to $15.4 million in letters of credit. The Fund was paid a deferred commitment fee of $3.2 million with respect to the investment.

2. Acquisition of Eight Water Distribution and Water Reclamation Facilities

The Fund completed the acquisition of eight water distribution and water reclamation facilities during 2005 for a total of $15.8 million (US$ 13.2 million). On March 11, 2005, the Fund completed the acquisition of four facilities in Texas and one in Illinois adding 4,200 equivalent residential customers to the Infrastructure Division. The acquisition of the remaining three facilities which are located in Missouri was completed on August 14, 2005, after regulatory approval was granted. These facilities added another 1,000 equivalent residential customers to the Infrastructure Division.

3. Acquisition of the Shares of Rio Rico Utilities Inc.

The Fund completed the acquisition of the shares of Rio Rico Utilities Inc. ("Rio Rico"), a water distribution and water reclamation facility in the Town of Rio Rico, Arizona on December 2, 2005. The acquisition of Rio Rico added 7,200 equivalent residential customers. The Fund paid cash consideration of $10.2 million (US $8.8 million). The Fund will also pay to the vendor an amount for each net additional customer connected with Rio Rico over the next three years.

St. Leon Wind Energy, Manitoba

Hydroelectric Division

	Three months ended December 31		Year ended December 31		Forecast Production
	2005	**2004**	**2005**	**2004**	**2006**
Performance (MW-hrs sold)					
Quebec Region	**80,461**	64,039	**267,469**	288,161	289,928
Ontario Region	**32,437**	28,319	**104,216**	137,310	146,639
New England Region	**22,775**	16,991	**83,254**	72,862	72,517
New York Region	**27,698**	20,288	**71,974**	79,891	87,194
Western Region	**19,737**	12,506	**81,521**	63,931	67,248
Total	**183,108**	142,143	**608,434**	642,155	663,526
Revenue					
Energy sales	**$ 13,872**	$ 10,282	**$ 44,102**	$ 43,268	
Expenses					
Operating expenses	**$ (5,964)**	$ (5,301)	**$ (17,008)**	$ (18,070)	
Other income	**843**	794	**1,250**	1,185	
Division operating profit					
(incl. other income)	**$ 8,751**	$ 5,775	**$ 28,344**	$ 26,383	

For the quarter ended December 31, 2005, revenue in the Hydroelectric Division was $13.9 million in 2005 as compared to $10.3 million in the same period in 2004. During the fourth quarter of 2005, the Hydroelectric Division generated electricity equal to 113.1% of long term averages as compared to 87% during the same period in 2004. The increase in generated electricity was the result of above average hydrology experienced in all regions in which the Fund operates, with the exception of Ontario where hydrology improved from the same period in the prior year but remained below long term averages. The increase in revenue was a result of higher overall production combined with improved average power rates in the New England and New York regions. The increase in revenue was partially offset as the energy rate escalation for the Long Sault Rapids facility was lower than the escalation received in the fourth quarter of 2004.

For the year ended December 31, 2005, revenue in the Hydroelectric Division was $44.1 million as compared to $43.3 million in the prior year. During fiscal 2005, the Fund's hydroelectric facilities generated electricity equal to 93.9% of long term averages as compared to 98.5% during the prior year. The decrease in generated electricity was the result of lower hydrology experienced during the first part of the year in the Quebec, Ontario and New York regions offset by improved hydrology in the Western and New England regions. Improved average power rates in New England and New York regions combined with improved hydrology in the New England and Western regions resulted in increased revenue. These factors were partially offset by lower hydrology in the Quebec, Ontario and New York regions.

Operating expenses increased to $6.0 million for the quarter ended December 31, 2005 as compared to $5.3 million in the same period in 2004. The increase in operating expenses was primarily due to higher unplanned repair and maintenance projects and increased costs directly tied to energy production, as compared to the same period in 2004. For the year ended December 31, 2005, operating expenses were $17.0 million as compared to $18.1 million in the prior year. The decrease was primarily due to reduced water fee charges as a result of lower output in the Ontario and Quebec regions and reduced property taxes in the Quebec region. These operating expense decreases were offset by increased unplanned repair and maintenance projects initiated in the year, as compared to the same period in 2004.

For the quarter ended December 31, 2005, the Hydroelectric Division's operating profit increased to $8.8 million as compared to $5.8 million for the same period in 2004. For the year ended December 31, 2005, operating profit increased to $28.3 million as compared to $26.4 million for the same period in 2004. The increase in operating profit for both the quarter and the year ended December 31, 2005 was primarily the result of improved average power rates in the New England and New York regions combined with improved hydrology in the New England and Western regions. For both the quarter and the year ended December 31, 2005, operating profit was above Management's expectations.

On September 1, 2005, $4.8 million was repaid on a note related to the Campbellford partnership. On this date, consolidation of the Campbellford investment ceased and equity accounting commenced. The proceeds of $4.8 million were allocated to reduce the existing note receivable and the existing investment in Campbellford. Still included in long term investments is a prepayment fee owed in connection with the early retirement of this note.

During the third quarter, the Fund completed the purchase of a 2.5 MW hydroelectric generating facility in New York State. The facility was not anticipated to contribute to income during 2005 as certain repairs and upgrades were required before it became operational. These repairs and upgrades are on schedule and two of three turbines were on line as of January 2006. The third turbine is expected to come on line later in the first quarter of 2006.

Outlook

The Fund's 2006 forecast production is based on long term hydrological conditions. The Hydroelectric Division is expected to continue to benefit from above long term average hydrological conditions in the first quarter of 2006. In addition, the facilities in the New England and New York regions are expected to continue to benefit from higher market rates, similar to the rates experienced in 2005.

The Fund will continue to seek accretive hydroelectric acquisitions throughout 2006, with emphasis placed on the acquisition of facilities that provide diversification of regional hydrologic and market conditions. In addition, the Fund is continuing to examine the rationalization of smaller hydroelectric generating facilities that may no longer fit the Fund's preferred asset profile.

Certain hydroelectric generating facilities owned by the Fund qualify for consideration as "green" energy and the Fund continues to pursue revenue opportunities presented by the emerging markets for renewable energy credits in the United States and the trading of greenhouse gas credit emissions in Canada. The Fund is also pursuing longer term power purchase agreements for the sale of green energy from those facilities that are currently selling electricity in the open market.

Beaver Falls, New York

Cogeneration Division

	Three months ended December 31		Year ended December 31		Forecast Production
	2005	2004	2005	2004	2006
Performance (MW-hrs sold)	**113,953**	133,356	**512,972**	521,149	441,005
Revenue					
Energy sales	**$ 19,551**	$ 17,556	**$ 75,674**	$ 71,846	
Other revenue	**1,884**	-	**1,884**	-	
Total revenue	**$ 21,435**	$ 17,556	**$ 77,558**	$ 71,846	
Expenses					
Operating expenses	**$ (14,528)**	$ (12,066)	**$ (52,822)**	$ (50,597)	
Interest and dividend income	**1,275**	749	**3,471**	4,024	
Division operating profit					
(incl. interest and dividend income)	**$ 8,182**	$ 6,239	**$ 28,207**	$ 25,273	

For the quarter ended December 31, 2005, revenue from the Cogeneration Division totaled $21.4 million as compared to $17.6 million in the same period in 2004. For the quarter ended December 31, 2005, the division's production fell as a result of a decision to close the Sanger facility for a six month period starting in November 2005 during the period in which Sanger is entitled to lower capacity payments. The natural gas purchased under a fixed contract normally consumed by the facility was sold at favourable fixed prices. In addition, there was reduced production at the Crossroads facility. These reductions were partially offset by increased production at the Windsor Locks facility. The increase in revenue was a result of a combination of higher production and energy prices at the Windsor Locks facility (increased fuel costs are passed on to the customer in the form of higher energy prices), other revenue generated from the sale of natural gas at the Sanger facility, offset by reduced production at the Crossroads facilities, as compared to the same period in 2004.

For the year ended December 31, 2005, revenue was $77.6 million as compared to $71.8 million during the same period in the prior year. During fiscal 2005, the division's production fell primarily as a result of the reasons noted for lower production in the fourth quarter. These reductions were partially offset by increased production at the Windsor Locks facility. The increased revenue was attributable to higher production and increased fuel costs that are passed on to the customer at the Windsor Locks facility, the sale of natural gas at Sanger, and due to no unplanned gas turbine outages at the Sanger facility, which was the case in 2004. The Fund earned lower interest income from its portfolio investments during the year ended December 31, 2005 as compared to the same period in 2004 due to the repayment of a note related to Cardinal Power of Canada LP ("Cardinal") which occurred in the second quarter of 2004, offset by increased dividends earned from its investments in the Kirkland and Cochrane facilities.

For the quarter ended December 31, 2005, operating expenses increased to $14.5 million as compared to $12.1 million in the same period in 2004. An increase in gas prices at the Windsor Locks facility and the inclusion of Dyna Fibers were the primary reasons for increased operating expenses. As at September 2005, the Fund completed the acquisition of Dyna Fibers, which operates out of the Sanger facility. The Fund previously owned 50% of the facility and accounted for its investment using the equity method. As a result, operating expenses increased by approximately $0.9 million during the quarter as compared to the same period in the prior year. The increased operating expenses in the quarter were partially offset by a stronger Canadian dollar.

For the year ended December 31, 2005, operating expenses totaled $52.8, million as compared to $50.6 million during the same period in the prior year. The increase in operating expenses was primarily due to higher average fuel costs. This was partially offset by reduced unplanned repair and maintenance costs and the stronger Canadian dollar.

For the quarter ended December 31, 2005, operating profit was $8.2 million as compared to $6.2 million for the same period in 2004. For the year ended December 31, 2005, operating profit was $28.2 million as compared to $25.3 million. Operating profit for the fourth quarter and fiscal 2005 exceeded Management's expectations. During 2005, the Fund recognized an expense of $3.5 million, representing a write down of its investment in the Crossroads facility to net realizable value. The division operating profit does not reflect this expense as it is included in the Administrative section of this report.

Outlook

The Fund's Windsor Locks facility will undergo a regularly scheduled four week major overhaul beginning at the end of the first quarter of 2006. It is expected that for the remainder of the year Windsor Locks will produce at or above prior year performance due to increased efficiencies following the overhaul, and favourable gas indexing provisions.

Following the end of the third quarter of 2005, the gas turbine at the Sanger facility was stopped and the fixed price natural gas normally consumed by the facility was sold at favourable fixed prices. This opportunity will continue until May 2006, and as a result, increased profits for the facility are expected for the first four months of 2006. The Fund is evaluating the replacement of the existing gas turbine at the Sanger facility with a newer, more efficient unit. Benefits of replacing the turbine could include higher efficiency, lower fuel costs, and greater ease of maintenance as well as supplying additional capacity and energy demands to the California energy market above and beyond the existing capacity of the plant.

With regards to the Crossroads facility, Management is in the process of monetizing the power purchase agreement and closing the facility.

Sanger, California

Alternative Fuels Division

	Three months ended December 31		Year ended December 31		Forecast Production
	2005	2004	2005	2004	2006
Performance (MW-hrs sold)	**57,538**	57,192	**213,735**	124,721	270,232
Performance (tonnes of waste processed)	**40,702**	37,471	**145,089**	157,491	159,856
Revenue					
Energy sales	**$ 4,414**	$ 3,646	**$ 16,262**	$ 7,867	
Waste disposal sales	**3,696**	3,503	**13,031**	14,086	
Total revenue	**$ 8,110**	$ 7,149	**$ 29,293**	$ 21,953	
Expenses					
Operating expenses	**$ (6,616)**	$ (5,262)	**$ (25,014)**	$ (15,124)	
Interest and other income	**2,523**	622	**6,494**	1,352	
Division operating profit (incl. interest and dividend income)	**$ 4,017**	$ 2,509	**$ 10,773**	$ 8,181	

For the quarter ended December 31, 2005, revenue in the Alternative Fuels Division was $8.1 million as compared to $7.1 million in the same period in 2004. During the fourth quarter of 2005, the division's production increased as a result of improvements at its Landfill Gas ("LFG") and EFW facilities, partially offset by the closure of the Joliet facility. The increase in revenue from energy sales was due to a change in the production mix resulting in improved average power rates in the fourth quarter, as compared to the same period in 2004.

For the year ended December 31, 2005, revenue was $29.3 million as compared to $22.0 million for the same period in the prior year. During fiscal 2005, the division's energy production increased as a result of the inclusion of a full year of operations of the LFG facilities, partially offset by lower production from the EFW and Drayton Valley facilities and the closure of the Joliet facility in May 2005. Energy production revenue in fiscal 2005 increased as a result of the inclusion of a full year of revenue at the LFG facilities and improved average power prices when compared to the prior year. The LFG facilities contributed revenue of approximately $10.7 million for fiscal 2005 compared to $2.2 million for fiscal 2004. The increase in revenue was offset by lower waste quantities processed at EFW during the second and third quarter of 2005.

For the quarter ended December 31, 2005, operating expenses were $6.6 million as compared to $5.3 million for the same period in 2004. The increase in operating expenses for the quarter was primarily the result of increased fuel related costs at the LFG facilities as compared to the same period in the prior year. For the year ended December 31, 2005, operating expenses were $25.0 million as compared to $15.1 million for the same period in 2004. The increase in operating expenses in fiscal 2005 was primarily the result of increased fuel collection costs at the LFG facilities and increased repair and maintenance costs in the division. The fiscal 2005 operating expenses also include a full year of operating costs from the LFG facilities of $11.0 million for fiscal 2005 compared to $2.0 million for fiscal 2004.

The Fund earned higher interest and other income on its investments within the Alternative Fuels Division during the fourth quarter of 2005 and in fiscal 2005, as compared to the comparable periods in 2004, as a result of income from its investment in AirSource and Across America LFG LLC ("Across America").

At the end of the fourth quarter of 2005, the Fund had advanced to AirSource a total of $20.5 million as well as providing letters of credit of $15.4 million. AirSource is constructing a 99 MW wind energy facility for which the Fund has provided a subordinated debt facility. During the fourth quarter, AirSource completed its long term senior debt facility with a bank syndicate. As a result, AirSource repaid a portion of the Fund's advances to date on the construction facility totaling $44.5 million. The Fund resumed advancing funds to complete the construction of the facility in December 2005 once the AirSource senior debt facility of $73 million was fully utilized. The Fund has committed a total of $74.4 million to AirSource, including both the construction and acquisition facilities, representing a third of the cost of the project. Interest income earned on the AirSource investment was $3.0 million ($0.1 million in 2004).

Across America, through its subsidiaries, owns and manages the landfill collection systems that provide landfill gas to the Fund's LFG facilities. The Across America note was funded at the end of the fourth quarter of 2004. The sale of partnership interests in certain gas collection systems during the year ended December 31, 2005 resulted in an increase to other income of $1.2 million.

For the quarter ended December 31, 2005, operating profit was $4.0 million as compared to $2.5 million in the same period in 2004. For the year ended December 31, 2005, operating profit was $10.8 million as compared to $8.2 million for the same period in 2004. Equipment availability and gas supply issues at the LFG facilities, and problems with the flue gas system at the EFW facility resulted in production and operating profits below Management's expectations for both the quarter and for the year ended December 31, 2005.

Based on its assessment of operations, Management determined that two LFG facilities were uneconomical to operate and the facilities were shut down during the quarter with no impact to 2005 results. These facilities are not material to the division and their closure will not have a material impact on the future operations of the division.

Outlook

In 2006, the Alternative Fuels Division is expected to start realizing the benefits from actions taken to improve operating efficiencies. At the EFW facility, production and maintenance improvements completed in 2005 are expected to improve operating results over the course of 2006. In 2004, the Fund entered into an agreement to sell steam from the EFW facility to an industrial customer located in close proximity to the facility. In 2006, the facility will undertake the installation of the additional steam generation and transmission assets required to fulfill this agreement. This project is expected to be completed near the end of the year.

The Fund's LFG facilities will continue to initiate several programs, including the implementation of preventative and repair maintenance programs, process changes, and various management improvement programs which are expected to result in reduced costs of operating the facilities.

Algonquin Power Energy-from-Waste, Ontario

Infrastructure Division

	Three months ended December 31		Year ended December 31		Forecast Production
	2005	**2004**	**2005**	**2004**	**2006**
Number of					
Water reclamation customers	**25,911**	20,703	**25,911**	20,703	28,011
Water distribution customers	**30,398**	19,318	**30,398**	19,318	33,253
Revenue					
Water reclamation and distribution	**$ 7,501**	$ 5,739	**$ 28,371**	$ 23,456	
Expenses					
Operating expenses	**$ (3,410)**	$ (2,136)	**$ (11,847)**	$ (10,849)	
Other income	**21**	1	**44**	9	
Division operating profit					
(incl. other income)	**$ 4,112**	$ 3,604	**$ 16,568**	$ 12,616	

For the quarter ended December 31, 2005, revenue in the Infrastructure Division increased to $7.5 million as compared to $5.7 million in the same period in 2004. The division's water reclamation customer base increased by 25% and the division's water distribution customer base increased by 57% for the quarter ended December 31, 2005 as compared to the quarter ended December 31, 2004. This growth was the result of organic growth and the purchase of nine facilities, as compared to the same quarter in the previous year. Five of these facilities (four in Texas and one in Illinois) were purchased on March 11, 2005 while regulatory approval was required to complete the purchase of the other three facilities (located in Missouri). This approval was received on August 14, 2005. An additional facility (located in Arizona) was purchased on December 2, 2005.

Excluding the impact of these purchases, the division's facilities experienced organic growth of approximately 9% at both its water distribution and water reclamation facilities. For the year ended December 31, 2005, revenue increased to $28.4 million as compared to $23.5 million for the same period during the prior year. The increase in revenue for the fourth quarter and for fiscal 2005 was primarily due to the inclusion of nine water distribution and water reclamation facilities purchased during the year as well as continued strong organic growth at existing facilities. The increase in revenue was partially offset by the stronger Canadian dollar. Overall, the additional facilities generated revenue of approximately $1.3 million for the fourth quarter of 2005 ($3.6 million for fiscal 2005). These increases were offset by higher than normal rain in Arizona experienced in the first quarter of 2005 which reduced demand, and a stronger Canadian dollar.

For the quarter ended December 31, 2005, operating expenses were $3.4 million as compared to $2.1 million in the same period in 2004, primarily due to the newly acquired facilities. For the year ended December 31, 2005, operating expenses were $11.8 million as compared to $10.8 million for the same period in the prior year. The increase in operating expenses was due to the inclusion of the operating costs of the newly acquired facilities of approximately $0.6 million in the fourth quarter of the 2005 ($1.4 million for fiscal 2005) offset by the stronger Canadian dollar.

For the quarter ended December 31, 2005, operating profit increased to $4.1 million as compared to $3.6 million for the same period during the prior year. For the year ended December 31, 2005, operating profit increased to $16.6 million as compared to $12.6 million in the prior year. The increases were due to strong organic growth and the inclusion of the facilities that were purchased during the year.

Outlook

The Infrastructure Division is expected to continue growing during 2006 at levels similar to 2005, with approximately 5,000 budgeted new customer connections anticipated during the year. Growth is expected to occur primarily in Texas, as well as in Arizona, where the division services one of the fastest growing counties in the United States. Stable, continued growth in the balance of the Infrastructure Division's service areas are expected to contribute to the strong overall performance of the division.

The addition of the facilities in Texas, Missouri, and Illinois and Rio Rico Utilities in southern Arizona in 2005 has added a total of over 12,000 new customer connections and is expected to contribute to revenue growth in the division for 2006. The Fund continues to consider opportunities which provide sustainable accretive growth to enhance unitholder value.

The Fund has initiated rate cases for its Black Mountain and Gold Canyon facilities. The regulatory review of these rate cases is expected to be completed by early 2007. Management expects that these rate cases will ensure that the respective facility earns the rate of return on its capital investment as allowed by the regulatory authority under which the facility operates. Additional rate cases will be initiated in 2006 to ensure the approved rate base reflects the investment required to meet the demands of an expanding customer base at certain facilities owned by the Fund.

Recent changes in drinking water legislation within the United States has lead to the requirement for new arsenic treatment procedures to be implemented. This is scheduled for completion in early 2006 at the Litchfield Park Services Company ("LPSCO") facility. Once implemented, the system ensures full regulatory compliance for the provision of safe drinking water. Operating expenses are expected to increase as a result of these new processes. It is expected that a strong, continued focus on operating efficiencies and process evaluation will help to minimize any increases in operating expenses in 2006.

Additional significant capital improvement projects planned in the LPSCO service area include the design and construction of a new reservoir and pumping facilities, rehabilitation to existing wells, construction of a new well, and the design of an expansion to the existing wastewater treatment plant. All of these capital projects are being developed to meet the expected growth in the area.

Fox River, Illinois

Administrative Expenses

	Three months ended December 31		Year ended December 31	
	2005	**2004**	**2005**	**2004**
Administrative expenses	**$ 1,661**	$ 1,615	**$ 5,681**	$ 5,596
Management costs	**206**	196	**825**	777
Withholding taxes	**647**	135	**1,177**	483
Loss / (Gain) on foreign exchange	**116**	873	**(1,744)**	(2,601)
Interest expense	**4,377**	3,721	**16,379**	12,440
Write down of fixed and intangible assets	**812**	1,932	**3,533**	1,932
Interest, dividend and other income	**(72)**	(115)	**(139)**	(4,373)
Income tax expense	**319**	1,779	**2,604**	2,285

For the quarter ended December 31, 2005, withholding tax expense increased to $0.6 million as compared to $0.1 million for the same period in 2004. For the year ended December 31, 2005, withholding tax expense increased to $1.2 million as compared to $0.5 million in the prior year. The expense increased as a result of additional cross-border notes requiring withholding taxes.

Foreign exchange gains and losses primarily represent unrealized gains on US dollar denominated debt and do not impact cash available for distribution. For the quarter ended December 31, 2005 the Fund posted a foreign exchange loss of $0.1 million versus a loss of $0.9 million for same period in 2004. For the year ended December 31, 2005 the Fund posted a foreign exchange gain of $1.7 million as compared to a gain of $2.6 million for the same period in the prior year. At the end of the fourth quarter, the Fund had approximately $40.3 million in US dollar denominated debt.

For the quarter ended December 31, 2005, interest expense increased to $4.4 million as compared to $3.7 million in the same period in 2004. For the year ended December 31, 2005, interest expense increased to $16.4 million as compared to $12.4 million for the same period in the prior year. The increase is due in part to the issuance of $85.0 million in convertible debentures in the third quarter of 2004 which added $0.1 million of interest expense in the fourth quarter of 2004 ($3.7 million increase for the year ended December 31, 2005). In addition, interest expense increased due to increased average levels of borrowing during the year, in part a result of the debt facility provided to AirSource and a higher interest rate charged on the Fund's credit facility.

For the year ended December 31, 2005, other income decreased to $0.1 million as compared to $4.4 million for the same period in 2004, primarily because the comparable period in 2004 includes income recognition of $3.6 million for a note receivable prepayment relating to the Cardinal facility and a break fee earned as a result of a failed transaction. During fiscal 2005, the figure only includes interest income.

An income tax expense of $0.3 million was booked in the fourth quarter of 2005 as compared to $1.8 million in the fourth quarter of 2004. For the year ended December 31, 2005, income tax expense increased to $2.6 million as compared to $2.3 million for the same period in 2004. The increase in the year was a result of an increase in future income taxes.

Algonquin Power Energy-from-Waste, Ontario

Cash Available for Distribution

	Three months ended December 31		Year ended December 31	
	2005	**2004**	**2005**	**2004**
Cash flow from operating activities	**$ 17,498**	$ 12,241	**$ 55,679**	$ 66,585
Changes in working capital	**2,140**	(906)	**7,932**	(7,204)
Operating cash flow before working capital changes	**19,638**	11,335	**63,611**	59,381
Receipt of principal on notes receivable	**804**	983	**4,959**	4,164
Decrease / (Increase) in restricted cash	**(17)**	330	**269**	235
Repayment of long term liabilities	**(469)**	(340)	**(1,380)**	(863)
Maintenance capital expenditures	**(589)**	217	**(2,167)**	(1,804)
Other	**101**	160	**(401)**	(1,226)
Cash available for distribution	**$ 19,468**	$ 12,685	**$ 64,891**	$ 59,887
Cash available for distribution per trust unit	**$ 0.28**	$ 0.18	**$ 0.93**	$ 0.87
Distribution to unitholders	**$ 16,016**	$ 16,016	**$ 64,061**	$ 63,370
Distribution to unitholders per trust unit	**$ 0.23**	$ 0.23	**$ 0.92**	$ 0.92

During the quarter ended December 31, 2005 the Fund generated $19.5 million in cash available for distribution as compared to $12.7 million for the same period in 2004. For the year ended December 31, 2005, the Fund generated $64.9 million of cash available for distribution as compared to $59.9 million for the same period in the prior year.

The Fund's distribution as a percentage of 'cash available for distribution' ("Payout Ratio") has improved to 98.7% in 2005. The Fund achieved Payout Ratios of 123.4% in 2002, 106.9% in 2003 and 105.8% in 2004.

In prior years, the shortfalls have been funded primarily by working capital. Should any future shortfall arise, Management expects to be able to cover the difference between cash generated and cash distributed through working capital, cash on hand or its credit facility. Working capital has been built up over time from public offerings.

On a per trust unit basis, the Fund generated $0.28 of cash available for distribution for the quarter ended December 31, 2005 as compared to $0.18 for the same period in 2004 and $0.93 for the year ended December 31, 2005 as compared to $0.87 for the same period in the prior year. The Fund distributed $16.0 million during the quarters ended December 31 of both 2005 and 2004. For the year ended December 31, 2005 the Fund distributed $64.1 million as compared to $63.4 million for the same period during 2004.

On a per unit basis, the Fund maintained distributions at $0.23 per trust unit for the quarter ended December 31, 2005, consistent with 2004, and $0.92 for the year ended December 31, 2005, consistent with 2004.

Under Canadian tax rules, cash distributions consist of a return of capital portion (tax deferred) and a return on capital portion (taxable). For the year ended December 31, 2005, the Fund's return of capital was approximately 53% as compared to 62% for the same period in the prior year.

Liquidity and Capital Reserves

For the quarter ended December 31, 2005, the Fund had $11.4 million of cash and cash equivalents. As at December 31, 2005, the Fund had positive net working capital of $2.9 million. The surplus is in part a result of the Fund generating excess cash over distributions.

During the quarter ended December 31, 2005, the Fund incurred capital expenditures of $2.6 million, as compared to $5.2 million in the comparable period in 2004. During the year ended December 31, 2005, the Fund incurred capital expenditures of $15.9 million, as compared to $17.3 million for the comparable period in 2004. Capital expenditures during the quarter ended December 31, 2005 were primarily growth related expenditures in the Infrastructure Division. Capital expenditure requirements are anticipated to be approximately $34 million for all of fiscal 2006. The majority of these expenditures are growth related expenditures in the Infrastructure Division, in part to comply with new rules pertaining to arsenic treatment procedures.

Long term liabilities increased to $157.0 million at December 31, 2005 as compared to $120.1 million at December 31, 2004. Long term liabilities primarily consist of project level debt of approximately $87.7 million and an amount of $69.3 million drawn on the Fund's revolving credit facility as compared to project level debt of $90.1 million and an amount of $30.0 million drawn on the Fund's revolving credit facility at the end of the fourth quarter of 2004. Project debt is paid at the project level where adequate cash flows are available to fund the project debt requirements and the debt is generally non-recourse to the Fund. Project debt repayments are deducted in the calculation of cash available for distribution.

The Fund has in place a $145 million revolving credit facility of which $125 million is to be used for acquisitions, investments and letters of credit, and the balance of $20 million is to be used for operating requirements. At the quarter ended December 31, 2005, the Fund had drawn $69.3 million on the acquisition portion of the revolving credit facility. The Fund had $nil drawings on the operating portion of the revolving credit facility.

Subsequent to the end of the year, the Fund drew an additional $26.4 million on its credit facility to fund the construction requirements of AirSource and working capital requirements. In addition, Management reached an agreement with the Fund's senior lenders to increase its credit facility by $30.0 million to $175.0 million. There were no material changes to the terms and conditions of the Fund's credit facility. This increase is effective until July 2006. The Fund intends to finance its capital expenditures and other commitments through working capital, its revolving credit facility and through additional trust unit and/or debenture offerings.

During the quarter ended December 31, 2005, the Fund repaid $43.8 million on its credit facility as a result of AirSource repaying a portion of its subordinated debt. The Fund also drew $24.5 million on its facility to further fund the requirements of AirSource and to acquire the infrastructure facility in Arizona. The Fund's total commitment to AirSource is $74.4 million of which the Fund intends to finance initially by utilizing the revolving credit facility. Since the Fund utilizes the revolving credit for growth capital expenditures including acquisitions, the revolving credit has been reduced in the past by the issuance of units and/or debentures to the public. It is anticipated that the revolving credit would be repaid by a future offering of units and/or debentures. At the quarter ended December 31, 2005, the Fund had advanced $20.5 million to AirSource in addition to providing letters of credit of $15.4 million, for a total advance of $35.9 million. Included in the drawings on the credit facility subsequent to the end of the year was $22.9 million to fund the construction requirements of AirSource.

For the quarter ended December 31, 2005 the Fund maintained a long term debt-to-equity ratio (including long term liabilities, other long term liabilities and convertible debentures) of 56%. The Fund may settle the outstanding convertible debentures, at its option, in cash, or, subject to certain conditions, in Fund units. Accordingly, if the convertible debentures are excluded from debt in this calculation (included as equity), the long term debt-to-equity ratio would be reduced to 31%.

Contractual Obligations

Information concerning contractual obligations as of March 7, 2006 is shown below:

	Total	Due less than 1 year	Due 2 to 3 years	Due 4 to 5 years	Due after 5 years
Long term debt obligations	$ 243,006	$ 1,005	$ 71,600	$ 2,753	$ 167,648
Other obligations	33,013	22,579	4,901	549	4,984
Total obligations	$ 276,019	$ 23,584	$ 76,501	$ 3,302	$ 172,632


Hollow Dam, New York

Long term obligations normally include regular payments related to long term debt and other obligations. These payments are included as a reduction to cash available for distribution. Included in the other obligations in the one year time frame is the Fund's commitment as of March 7, 2006 to advance an additional $15.6 million to AirSource with regards to fulfilling its commitment to AirSource and its commitment of $6.5 million regarding the installation of the additional steam generation and transmission assets required for the sale of steam from the EFW facility.

Unitholders' Equity and Convertible Debentures

As at December 31, 2005, the Fund had 69,691,592 issued and outstanding units. As at March 7, 2006, no additional units had been issued or redeemed.

In 2004, the Fund issued 85,000 convertible unsecured debentures at a price of $1,000 for each debenture. The debentures bear interest at 6.65% per annum and are convertible into trust units of the Fund at the option of the holder at a conversion price of $10.65 per trust unit, being a ratio of approximately 93.90 trust units for each $1,000 principal. The debentures may not be redeemed by the Fund prior to July 31, 2007. As at December 31, 2005, there were 85,000 convertible debentures outstanding. As at March 7, 2006, no debentures had been presented for conversion.

Dealings with Algonquin Power Group

Companies related to the Manager provide operations and technical services on a cost-recovery basis. Two of these companies meet the definition of a variable interest entity ("VIE"), as discussed below and are consolidated with the Fund. As such, any intercompany balances with respect to these companies have been eliminated. In addition, the Fund's head office premises are leased from an entity related to the Manager. Details are outlined in note 12 of the Fund's audited consolidated financial statements for the year ended December 31, 2005.

When appropriate for use in its operations, the Fund utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of the Manager. The Fund entered into an agreement and remitted $1.3 million to this affiliate as an advance against expense reimbursement (including engine utilization reserves) for the Fund's business use of this aircraft. Under the terms of this arrangement, the Fund will have priority access to make use of the aircraft for a specified number of hours at a cost equal solely to the third party direct operating costs incurred when flying the aircraft; such direct operating costs do not provide the affiliate with any profit or return on or of the capital committed to the aircraft.

Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 addresses the application of consolidation principles to certain entities that are subject to control on a basis of control other than ownership of voting interests. AcG-15 addresses when an enterprise should include the assets, liabilities and results of activities of such an entity in its consolidated financial statements.

The Fund adopted AcG-15 on a retroactive basis. The adoption had no impact on net earnings or opening deficit. Under the new guidelines, the Fund consolidated the accounts of Algonquin Power Systems Inc and Algonquin Water Services LLC with the accounts of the Fund. There was no material impact on the Fund.

Risk Management

There are a number of risk factors relating to the business of the Fund. Some of these risks include the dependence upon Fund businesses, regulatory climate and permits, US versus Canadian dollar exchange rates, tax related matters, commodity prices, gross capital requirements, labour relations, reliance on key customers and environmental health and safety considerations. A more comprehensive assessment of the Fund's business risks is set out in the 2005 Renewal Annual Information Form.

The Fund is entirely dependant upon the operations and assets of the Fund businesses. Accordingly, distributions to unitholders are dependent upon the profitability of each of the Fund businesses. This profitability could be impacted by equipment failure, the failure of a major customer to fulfill its contractual obligations under its power purchase agreement, reductions in average energy prices, a strike or lock-out at a facility and expenses related to claims or clean-up to adhere to environmental and safety standards. These risks are mitigated through the diversification of the Fund's operations, both operationally (Hydro, Cogeneration, Alternative Fuels and Infrastructure) and geographically (Canada and US), the use of regular maintenance programs, maintaining adequate insurance and the establishment of reserves for expenses. In addition, the Fund's existing long term power purchase agreements minimize the risk of reductions in average energy pricing.

Profitability of the Fund businesses will be in part dependent on regulatory climates. In the case of some hydroelectric facilities, water rights are generally owned by governments who reserve the right to control water levels which may affect revenue. The water distribution and water reclamation facilities are highly regulated and are subject to rate settings by state regulators. Management continually works with these authorities to manage the affairs of the business.

The hydroelectric operations of the Fund are impacted by seasonal fluctuations. These assets are primarily "run-of-the-river" and as such fluctuate with the natural water flows. During the winter and summer periods, flows are generally slower while during the spring and fall periods flows are heavier. The ability of these assets to generate income may be impacted by changes in water availability or other material hydrologic events within a watercourse. It is, however, anticipated that due to the geographic diversity of the facilities, variability of total revenues will be minimized.

Currency fluctuations may affect the cash flows the Fund would realize from its operations, as certain of the Fund businesses sell electricity in the United States and receive proceeds from such sales in US dollars. Such Fund businesses also incur costs in US dollars. The Fund attempts to manage this risk through the use of forward contracts. At the quarter ended December 31, 2005, the Fund had forward contracts to sell US dollars for fiscal 2006 to fiscal 2010 totaling US$ 97.8 million carrying an average rate of $1.34. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund has a credit facility and project specific debt of approximately $157.0 million. In the event that the Fund was required to replace these facilities with borrowings having less favourable terms or higher interest rates, the level of cash generated for distribution may be negatively impacted.

The cash available for distribution generated from several of the Fund's facilities are subordinated to senior debt. In the event that there was a breach of covenants or obligations with regards to any of these particular loans which was not remedied, the loan could go into default which could result in the lender realizing on its security and the Fund losing its investment in such facility. The Fund actively manages its operations to minimize the risk of this possibility.

Changes to income tax laws and the current tax treatment of mutual fund trusts could negatively impact the Fund. Although the Fund is of the view that it currently qualifies under current legislation as a mutual fund trust, there can be no assurance that the legislation will be changed in the future or that Canada Revenue Agency ("CRA") will agree with this position. If the Fund ceases to qualify as a mutual fund trust, the return to unitholders may be adversely affected. In addition, although the Fund is of the view that all expenses being claimed by the Fund are reasonable and that the cost amount of the Fund's depreciable properties have been correctly determined, there can be no assurance that CRA or the Internal Revenue Service will agree. A successful challenge by either agency regarding the deductibility of such expenses or the correctness of such cost amounts could impact the return to Unitholders.

The Fund's water distribution and water reclamation utilities may be located within areas of the United States experiencing high growth. These utilities may have an obligation to service new residential, commercial and industrial customers. While expansion to serve new customers will likely result in improved future cash flows, it may require significant up front capital commitments in the immediate term. Accordingly, the Fund may be required to access capital markets or obtain additional borrowings to finance these future construction obligations.

The Fund has fixed the price of its natural gas exposure until 2006 at the Sanger facility and to 2007 at the EFW facility. After this time, the EFW facility is the Fund's only natural gas exposure as the other facilities have pass through provisions in their energy agreements. Natural gas at the EFW facility will be re-contracted on a rolling basis.

The Fund maintains adequate insurance on all of its facilities. This includes property and casualty, boiler and machinery, and liability insurance.

Critical Accounting Estimates

The Fund recognizes revenue derived from energy sales at the time energy is delivered. Water reclamation and distribution revenue is recognized when delivered to customers. Revenue from waste disposal is recognized on an actual tonnage of waste delivered to the plant at prices specified in the contract. Certain contracts include price reductions if specified thresholds are exceeded. Revenue for these contracts are recognized based on actual tonnage at the expected price for the contract year and any amount billed in excess of the expected is deferred.

The Fund books deferred credits received by the Infrastructure Division which relate to advances from developers for water distribution and water reclamation main extensions received. These advances usually carry repayment terms based on the revenue generated by the development in question ranging for a term of 10 years. At the end of the payment term, the unpaid portion of the advance converts to contribution in aid of construction and is not required to be repaid to the developer. The Fund records the deferred credits based on its expected repayments as determined by historical experience and industry practice.

The Fund records at cost capital assets such as land, facilities and equipment. Improvements that increase or prolong the service life or capacity of an asset are also capitalized at cost. Intangible assets such as power purchase contracts acquired, licensing costs and customer relationship costs are recorded at cost. The Fund reviews capital and intangible assets for permanent impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable.

The Fund enters into forward contracts to hedge against its exposure to the US dollar. Gains and losses from these activities are reported as adjustments to the related revenue or expense account as they are settled.

Outlook

Management will continue to identify opportunities to optimize the performance of its portfolio. Management is focusing its efforts on integrating recently acquired facilities including the hydroelectric facility and water distribution and water reclamation facilities as well as identifying efficiency opportunities to enhance unitholder value.

Cash available for distribution for 2006 is expected to remain in line with distributions to unitholders. Further organic growth in water distribution and reclamation services, continuing average long term hydrologic conditions, the escalation of power prices in certain hydroelectric power purchase agreements, coupled with no unforeseen events should result in improved cash available for distribution.

The Fund continues to be an industry leader in the areas of the environment and health and safety. The Fund maintains continuous health and safety training for all its operations and maintenance staff. All of the Fund's facilities are in compliance in all material respects with local and federal environmental regulations. The Fund continues to upgrade the facilities' environmental controls utilizing best available technology.

Management will continue to invest in information technology to reduce administrative costs by continuing the implementation of supply chain management systems and integrated billing and customer protocols.

In keeping with the emerging Ontario Securities Commission requirements, Management will continue the process of completing the review and documentation of its controls and procedures for annual certification of the financial statements.

Disclosure Controls and Procedures

In accordance with the requirements of the Securities Act (Ontario) and other provincial securities legislation, the CEO and CFO of the Fund are required to certify annually that they have designed the Fund's disclosure controls and have evaluated their effectiveness for the applicable period. Disclosure controls are those controls and procedures which ensure that information that is required to be disclosed by Multilateral Instrument 52-109, the Ontario Securities Commission and other provincial regulators is recorded, processed and reported within the time frames specified by regulators.

During 2005, the Fund commenced a review of its Disclosure Policy, and the amended policy was approved by the Trustees of the Fund in December of 2005. In addition, the Disclosure Committee's structured operating routines were further developed, supported by the Disclosure Committee Charter. The underlying importance of this work has been reinforced with the Manager and CFO. Accordingly, it is now written policy that information must be forwarded to the Manager and/or the CFO on a timely basis so that decisions can be made regarding required external disclosures. Although this process has existed for some time, it has now been formalized in written operating procedures.

The Trustees of the Fund have concluded that the disclosure polices and procedures of the Fund will provide reasonable assurance that the Fund's policy of providing timely, consistent, fair and accurate disclosure of material information will be achieved.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended December 31, 2005.

Millions of dollars except per trust unit amounts

	1st Qtr 2005	2nd Qtr 2005	3rd Qtr 2005	4th Qtr 2005	Total
Revenue	40.6	45.0	42.8	50.9	179.3
Net earnings	1.8	1.6	9.5	8.9	21.8
Net earnings per trust unit	0.03	0.02	0.14	0.13	0.31
Total assets	813.1	822.1	838.2	823.8	823.8
Long term debt	235.6	261.8	286.8	271.5	271.5
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

	1st Qtr 2004	2nd Qtr 2004	3rd Qtr 2004	4th Qtr 2004	Total
Revenue	37.2	41.9	40.7	40.7	160.5
Net earnings	3.3	8.1	11.5	(0.1)	22.8
Net earnings per trust unit	0.05	0.12	0.16	0.00	0.33
Total assets	812.5	809.0	834.2	824.8	824.8
Long term debt	186.4	189.7	214.6	226.2	226.2
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

The quarterly results are impacted by various factors including seasonal fluctuations and acquisition of facilities as noted in this management's discussion and analysis.

Recently Issued Canadian Accounting Standards

Financial Instruments

In January 2005, the CICA issued the following Handbook sections: Section 3855 - "Financial Instruments – Recognition and Measurement", Section 1530 – "Comprehensive Income" and Section 3865 – "Hedges". These new standards will be effective for interim and annual financial statements commencing in 2007. The new standards will require presentation of a separate statement of comprehensive income. Foreign exchange gains and losses on the translation of the financial statements of self-sustaining subsidiaries previously recorded in a separate section of shareholders' equity will be presented in comprehensive income. Derivative financial instruments will be recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income. The existing principals of Accounting Guideline 13 will be substantially unchanged for hedge documentation. The Fund is assessing the impact of the new standards.

Belleterre, Québec

Windsor Locks, Connecticut

Tajiguas, California

Gold Canyon Sewer Company, Arizona

Auditors' Report

To the Unitholders of Algonquin Power Income Fund

We have audited the consolidated balance sheets of Algonquin Power Income Fund as at December 31, 2005 and 2004 and the consolidated statements of earnings and deficits and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Toronto, Canada
March 7, 2006

Consolidated Balance Sheets

December 31, 2005 and December 31, 2004

(thousands of Canadian dollars)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 11,363	$ 34,348
Accounts receivable	29,206	25,819
Prepaid expenses	1,918	2,060
Current portion of notes receivable (note 3)	2,791	2,589
Future income tax asset (note 11)	-	18
	45,278	64,834
Long-term investments (note 3)	57,489	48,561
Future non-current income tax asset (note 11)	7,719	6,425
Capital assets, net of accumulated amortization (note 4)	627,652	610,756
Intangible assets, net of accumulated amortization (note 5)	76,848	83,677
Restricted cash	3,458	3,728
Deferred costs (net of accumulated amortization of $2,425, (2004 - $1,383)	5,357	6,815
	$ 823,801	$ 824,796
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 28,585	$ 33,105
Due to Algonquin Power Group (note 12)	62	99
Cash distribution payable	10,677	10,677
Current portion of long-term liabilities (notes 7 and 9)	1,445	1,666
Current income tax liability	435	596
Future income tax liability (note 11)	1,143	1,449
	42,347	47,592
Long-term liabilities (notes 6 and 7)	157,002	120,085
Convertible debentures (note 8)	85,000	85,000
Other long-term liabilities (note 9)	10,435	8,960
Deferred credits	19,102	12,124
Future non-current income tax liability (note 11)	56,917	55,764
Unitholders' equity		
Trust units (note 10)	654,176	654,176
Deficit	(201,178)	(158,905)
	452,998	495,271
Commitments and contingencies (notes 2 and 13)		
Guarantees (note 20)		
Subsequent events (note 21)		
	$ 823,801	$ 824,796

See accompanying notes to the consolidated financial statements

Approved by the Trustees

George Steeves   K Moore

Consolidated Statements of Earnings and Deficit

For the years ended December 31, 2005 and December 31, 2004
(thousands of Canadian dollars except per trust unit)

	2005	2004
Revenue		
Energy sales	$ 136,038	$ 122,981
Waste disposal fees	13,031	14,086
Water reclamation and distribution	28,371	23,456
Other revenue	1,884	-
	179,324	160,523
Expenses		
Operating	106,691	94,640
Amortization of capital assets	27,325	26,730
Amortization of intangible assets	6,463	5,565
Management costs (note 12)	825	777
Administrative expenses	5,681	5,596
Withholding taxes	1,177	483
Gain on foreign exchange	(1,744)	(2,601)
	146,418	131,190
Earnings before undernoted	32,906	29,333
Interest expense	(16,379)	(12,440)
Interest, dividend and other income (note 17)	11,398	10,943
Write down of fixed assets and intangible assets (notes 4 and 5)	(3,533)	(1,932)
	(8,514)	(3,429)
Earnings before income taxes and minority interest	24,392	25,904
Current income taxes (note 11)	854	1,105
Future income taxes (note 11)	1,750	1,180
	2,604	2,285
Minority interest	-	817
Net earnings	21,788	22,802
Deficit, beginning of year	(158,905)	(118,337)
Cash distributions (note 15)	(64,061)	(63,370)
Deficit, end of year	$ (201,178)	$ (158,905)
Basic and diluted net earnings per trust unit (note 16)	$ 0.31	$ 0.33

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and December 31, 2004
(thousands of Canadian dollars)

	2005	2004
Operating Activities		
Net earnings	$ 21,788	$ 22,802
Items not affecting cash		
Amortization of capital assets	27,325	26,730
Amortization of intangible assets	6,463	5,565
Other amortization	1,339	2,331
Minority interest	-	817
Distribution received in excess of equity income	208	(16)
Future income taxes	1,750	1,180
Write down of fixed and intangible assets	3,533	1,932
AirSource commitment fee (note 3)	3,228	500
Gain on foreign exchange	(2,023)	(2,460)
	63,611	59,381
Changes in non-cash operating working capital	(7,932)	7,204
	55,679	66,585
Financing Activities		
Cash distributions	(64,061)	(63,370)
Issue costs of trust units	-	(700)
Convertible debenture issue (note 8)	-	85,000
Expenses of convertible debenture issue (note 8)	205	(4,100)
Deferred costs	(1,154)	(2,305)
Increase in long-term liabilities	93,080	30,000
Decrease in long-term liabilities	(55,310)	(71,969)
Deferred credits	(290)	426
Other	317	(1,117)
	(27,213)	(28,135)
Investing Activities		
Decrease in restricted cash	270	235
Receipt of principal on notes receivable	9,697	21,988
Additions to capital assets	(15,912)	(17,336)
Acquisition of notes receivable	(16,241)	(13,917)
Acquisitions of operating entities net of cash acquired (note 2)	(28,952)	(15,159)
	(51,138)	(24,189)
Effect of exchange rate differences on cash and cash equivalents	(313)	(1,151)
Increase / (decrease) in cash and cash equivalents	(22,985)	13,110
Cash and cash equivalents, beginning of year	34,348	21,238
Cash and cash equivalents, end of year	$ 11,363	$ 34,348
Supplemental disclosure of cash flow information		
Cash paid during the year for interest expense	$ 15,753	$ 9,441
Cash paid during the year for income taxes	$ 871	$ 1,624
Non-cash		
Issue of trust units to retire convertible debentures of KMS	$ -	$ 16,663

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars except as noted and per trust unit)

Algonquin Power Income Fund (the "Fund") is an open-ended, unincorporated trust established pursuant to the Declaration of Trust dated September 8, 1997, as amended, under the laws of the Province of Ontario. The Fund's principal business activity is the ownership, directly or indirectly, of generating and infrastructure facilities, through investments in securities of subsidiaries including limited partnerships and other trusts. The activities of the subsidiaries may be financed through equity contributions, interest bearing notes and third party project debt as described in the notes to the financial statements. The revolving credit facility and the convertible debentures are direct obligations of the Fund.

The Trustees declare on a monthly basis, distributions to the Unitholders. Currently such distributions are $0.92 per unit on an annualized basis.

The Fund is managed by Algonquin Power Management Inc. ("APMI"), a company wholly owned by the four principal employees of APMI who provide management services for the Fund. A majority of the shareholders of APMI indirectly own Algonquin Airlink Limited Partnership which owns an aircraft the Fund charters. The shareholders of APMI own Algonquin Property LP which leases the corporate office to the Fund. Collectively, these entities are referred to as the Algonquin Power Group.

1. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in Canada and include the consolidated accounts of all of its subsidiaries. The Fund consolidates its proportionate share in the Valley Power Limited Partnership.

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 addresses the application of consolidation principles to certain entities that are subject to control on a basis of control other then ownership of voting interests. AcG-15 addresses when an enterprise should include the assets, liabilities and results of activities of such an entity in its consolidated financial statements. The Fund adopted AcG-15 on a retroactive basis. The adoption had no impact on net earnings or opening deficit.

All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents include cash deposited at banks and highly-liquid investments with original maturities of 90 days or less.

(c) Restricted cash

Cash reserves segregated from the Fund's cash balances are maintained in accounts administered by a separate agent and disclosed separately in these consolidated financial statements as the Fund cannot access this cash without the prior authorization of parties not related to the Fund.

(d) Capital assets

Capital assets, being land, facilities and equipment, are recorded at cost. Development costs, including the cost of acquiring or constructing facilities together with the related interest costs during the period of construction are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

The facilities and equipment, which include overhauls, are amortized on a straight-line basis over their estimated useful lives. For facilities these periods range from 15 to 40 years. Facility equipment is amortized over 2 to 10 years.

(e) Intangible assets

Power purchase contracts acquired are amortized on a straight-line basis over the remaining term of the contract. These periods range from 6 to 15 years from date of acquisition.

Customer relationships are amortized on a straight-line basis over 40 years.

(f) Impairment of long-lived assets

The Fund reviews capital assets and intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to expected future cash flows. If the carrying amount exceeds the expected future cash flows, the asset is written down to its fair market value.

(g) Notes receivable

Notes receivable are carried at cost. A provision for credit losses on notes receivable is charged to the statement of earnings and deficit to cover any losses of principal and accrued interest.

(h) Deferred costs

Deferred costs, which include the costs of arranging the credit facility, costs associated with the issuance of convertible debentures, costs associated with periodic customer rate reviews with the utility governing bodies for the water reclamation and distribution facilities, are amortized on a straight-line basis over the term of the expected benefit being 2 to 7 years.

(i) Long-term investments

Investments in which the Fund has significant influence but not control or joint control are accounted using the equity method. The Fund records its share in the income or loss of its investees in interest, dividend and other income in the consolidated statement of earnings and deficit. All other equity investments where the Fund does not have significant influence or control are accounted for under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in value, distributions of earnings and additional investments.

(j) Deferred credits

Certain of the water companies receive advances from developers for water and sewage main extensions. The amounts advanced are generally repaid over a period of 10 years based on 10% of the revenues generated by the housing/development in the area developed. Generally, advances not refunded within the specified period are not required to be repaid. The estimate of non-refundable amounts is credited against capital assets. The Fund also receives contributions in aid of construction with no repayment requirements in which the full amount is immediately treated as a capital grant and netted against capital assets.

Deferred water rights result from a hydroelectric generating facility which has a fifty-year water lease with the first ten years of the water lease requiring no payment. An average rate was estimated over the life of the lease and a deferral was booked based on this estimate which is being drawn down in the last forty years.

Commitment fees received associated with the financing to AirSource are amortized over the term of the financing facility, being 9 years (note 3).

(k) Recognition of revenue

Revenue derived from energy sales, which are mostly under long-term power purchase contracts, is recorded at the time electrical energy is delivered.

Water reclamation and distribution revenues are recorded when delivered to customers.

Revenue from waste disposal is recognized on actual tonnage of waste delivered to the plant at prices specified in the contract. Certain contracts include price reductions if specified thresholds are exceeded. Revenue for these contracts are recognized based on actual tonnage at the expected price for the contract year and any amount billed in excess of the expected rate is deferred.

Interest and dividend income from long-term investments is recorded as earned.

(l) Foreign currency translation

The Fund's United States subsidiaries and partnership interests are considered to be functionally integrated with the Canadian operations. All monetary assets and liabilities denominated in United States dollars are translated into Canadian dollars at year-end exchange rates, whereas non-monetary assets and liabilities are translated at the rate in effect at the transaction date. The revenues and expenses of these integrated operations are translated at the average rate of exchange in effect during the period. The foreign currency translation adjustment is reflected in the consolidated statement of earnings and deficit. Amortization of assets translated at historical exchange rates are translated at the same exchange rate as the assets to which they relate.

(m) Derivatives contracts

The Fund enters into forward contracts to hedge against possible fluctuations in its exposure to the US dollar. Gains and losses from these activities are reported as adjustments to the related revenue account as they are settled and no balance is carried on the consolidated balance sheet.

The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(n) Asset retirement obligations

The fair value of estimated asset retirement obligations is recognized in the consolidated balance sheets when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's estimated useful life and included in amortization expense on the consolidated statement of earnings and deficit. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the consolidated statement of earnings and deficit. Actual expenditures incurred are charged against the accumulated obligation.

(o) Income taxes

As the Fund is an unincorporated trust, it is entitled to deduct distributions to unitholders to the extent of its taxable income and consequently, it is expected that the Fund will not be liable for any material tax as this will be the responsibility of the individual unitholder. Any provision for income taxes will relate solely to the income taxes of the Fund's wholly owned subsidiaries.

Income taxes are accounted for using the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment.

A valuation allowance is recorded against future tax assets to the extent that it is more likely than not the future tax asset will not be realized.

(p) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives and recoverability of capital assets and intangible assets, the recoverability of notes receivable and long-term investments, the recoverability of future tax assets, the portion of aid-in construction payments that will not be repaid, and the fair value of financial instruments and derivatives. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

(q) Comparatives

Certain comparative amounts have been reclassified to conform with current year financial presentation.

2. Acquisitions

A) i) On March 11, 2005, the Fund purchased all the assets used in the operation of five water distribution and water reclamation facilities ("the systems") for cash consideration of $11.2 million (US $ 9.4 million). A deposit in the amount of $1.4 million (US $1.0 million) was paid in 2004. The systems, which in aggregate serve approximately 4,200 equivalent residential connections, are located in Texas and Illinois. The purchase and sale agreement provided for the acquisition of 3 additional assets, subject to regulatory approval, located in Missouri serving approximately 1,000 customers, for a purchase price of $4.6 million (US $3.8 million). On August 14, 2005, the Fund received approval from the regulator and completed the Missouri acquisitions. The Fund also incurred $0.4 million (US $0.3 million) of acquisition costs.

ii) On September 21, 2005, the Fund purchased the Beaver Falls Hydro Plant, a 2.5 MW hydro electric generating station located in Beaver Falls, New York, for cash consideration of $1.0 million (US $0.8 million). Electrical energy produced by the facility is sold to Niagara Mohawk under a power sales contract which expires in 2019. The Fund also incurred $0.1 million (US $0.1 million) of acquisition costs. The Fund has included $1.8 million (US $1.5 million) in deferred credits related to below market hydro rates in the power purchase agreement which will be amortized over the term of the agreement.

iii) On December 2, 2005, the Fund acquired the shares of Rio Rico Utilities Inc. ("Rio Rico") located in the Town of Rio Rico, Arizona, for $10.2 million (US $8.8 million), in the Infrastructure operating segment. The company owns and operates the potable water distribution and water reclamation utility assets. The Fund also incurred $0.2 million (US $0.2 million) of acquisition costs. The Fund will also pay to the vendor for additional customers connected with Rio Rico over the next three years. At December 31, 2005, Rio Rico services approximately 7,200 water and wastewater customers.

The acquisitions have been accounted for using the purchase method, with earnings from operations included since the date of acquisition. The consideration paid by the Fund has been allocated to net assets acquired as follows:

	Infrastructure	Hydroelectric	Total
Working capital	$ 609	$ -	$ 609
Fixed assets	19,647	2,910	22,557
Intangible assets	3,361	-	3,361
Future non-current income tax asset	3,369	-	3,369
Customer deposits	(154)	-	(154)
Deferred credits	(163)	(1,770)	(1,933)
Total purchase price	26,669	1,140	27,809
Less: cash acquired	(187)	-	(187)
Less: deposit paid in 2004	(1,368)	-	(1,368)
Cash consideration paid	$ 25,114	$ 1,140	$ 26,254

Intangible assets in infrastructure include customer relationships that are amortized over 40 years.

B) On September 30, 2004, the Fund acquired an interest in 12 landfill gas powered generating stations (the "LFG Facilities") representing approximately 36MW of installed capacity for total consideration of $11,374 (US $9,000). The majority of the LFG facilities were commissioned in the late 1990's. The electricity produced is sold to a number of large utilities pursuant to long-term power purchase agreements with an average termination date of 2011.

The acquisition has been accounted for using the purchase method, with earnings from operations included from the date of acquisition.

The consideration paid by the Fund has been allocated to net assets acquired as follows:

	Alternative Fuels
Working capital	$ 1,350
Capital assets	8,621
Intangible assets	1,746
Total purchase price	11,717
Less: cash acquired	(343)
Cash consideration paid	$ 11,374

Intangible assets represent the value of power purchase contracts acquired with the LFG facilities and are amortized over the remaining life of the contracts from date of acquisition ranging from 1 to 16 years.

C) In accordance with the purchase and sale agreements of Litchfield Park and Woodmark Utility Company additional amounts are required to be paid to the vendors for additional customers connected to the facilities. For Litchfield Park, these payments continue until 2008 and for Woodmark until 2007. The additional payments of $2,698 (2004-$3,783) are capitalized as part of the customer relationship intangible asset, gross of future income taxes of $1,627 (2004-$2,279).

	2005	2004
Litchfield Park	$ 2,584	$ 3,624
Woodmark	114	159
	$ 2,698	$ 3,783
In US$	$ 2,300	$ 2,944

3. Long-term investments

	2005	2004
Debt and equity interests, ranging in ownership between 12.1% to 32.4%, in four generating facilities.	$ 27,346	$ 30,556
A 45% partnership interest in the Algonquin Power (Rattle Brook) Partnership	3,719	3,787
A 50% partnership interest in Campbellford Limited Partnership	392	-
	31,457	34,343
Campbellford Note Note bearing interest of 9.9415% repayable in monthly blended installments (principal and interest) of $32, maturing February 28, 2015.	-	3,023
Across America Note Note bearing interest of 12.00% repayable in quarterly installments, (principal and interest) of US$ 635, maturing January 31, 2008.	6,185	8,004
Airsource Note Note bearing interest of 11.189% maturing September 30, 2014. Interest decreases to 10.739% after conversion. No principal payments until January 1, 2009.	20,481	5,512
Airlink Advance (note 12) Advance for expense reimbursement for business use of aircraft	1,212	-
Other	945	268
	28,823	16,807
	60,280	51,150
Less: current portion	2,791	2,589
	$ 57,489	$ 48,561

The above notes are secured by the underlying assets of the respective facilities.

On September 1, 2005, the principal on the Campbellford Note of $4,738 was repaid. On this date, consolidation of the Campbellford investment ceased and equity accounting commenced. The proceeds of $4,738 were allocated to reduce the existing note receivable and the existing investment in Campbellford. A prepayment fee is due as a result of the early prepayment and included in other above.

During 2005, the Fund has provided an additional $14,969 of financing to AirSource Power Fund I LP ("AirSource") for the construction of the wind farm in St. Leon and $15,395 in letters of credit. The total outstanding balance at December 31, 2005 was $20,481. The Fund received a $3,228 commitment fee in 2005, which has been deferred and is being amortized over the term of the financing facility being 9 years. The Fund's total commitment to AirSource is $74,400.

4. Capital assets

		2005	
	Cost	Accumulated amortization	Net book value
Land	$ 11,504	$ -	$ 11,504
Facilities	712,845	104,650	608,195
Equipment	14,584	6,631	7,953
	$ 738,933	$ 111,281	$ 627,652

Facilities include $90,296 (2004 - $89,889) of net assets under capital lease and $8,433 (2004 - $849) of construction in process. In addition, $11,329 (2004 - $18,557) of contributions received in aid of construction have been credited to facilities cost.

The Fund has entered into an agreement to sell steam from the Algonquin Power Energy-from-Waste facility to an industrial customer located in close proximity to the Algonquin Power Energy-from-Waste facility. To effect such sales, the Fund will incur the costs of certain additional steam generation and transmission assets. The Fund has committed to contractual arrangements to the project totaling approximately $9,800. The Fund has incurred amounts totaling $2,418 (2004 -$849) included in assets under construction. APC is entitled to 50% of the cashflow above 15% return on investment.

During 2005, the Fund wrote down the cost of both the capital asset and intangible asset related to the Crossroads facility located in New Jersey to its estimated fair value.

		2004	
	Cost	Accumulated amortization	Net book value
Land	$ 11,504	$ -	$ 11,504
Facilities	676,120	85,228	590,892
Equipment	12,623	4,263	8,360
	$ 700,247	$ 89,491	$ 610,756

During 2004, the Fund wrote off the cost of both the capital asset and intangible asset related to the Joliet facility located in Illinois. Management deemed that the facility was no longer economically viable.

5. Intangible assets

	2005		
	Cost	Accumulated amortization	Net book value
Power purchase contracts	$ 73,966	$ 25,234	$ 48,732
Customer relationships	29,109	1,167	27,942
Licenses and agreements	696	522	174
	$ 103,771	$ 26,923	$ 76,848

	2004		
	Cost	Accumulated amortization	Net book value
Power purchase contracts	$ 73,966	$ 11,417	$ 62,549
Customer relationships	21,423	528	20,895
Licenses and agreements	696	463	233
	$ 96,085	$ 12,408	$ 83,677

6. Revolving credit facility

In August 2005, the Fund renewed its revolving credit facility with a syndicate of Canadian banks. The credit facility matures August 30, 2007, and has a total credit limit of $145,000 and includes a $20,000 operating line. At December 31, 2005, $69,300 (2004 - $30,000) has been drawn on the revolving credit facility and no amount was outstanding on the operating line. In addition, the availability of the revolving credit facility has been reduced by $44,883 (2004- $30,878) for certain outstanding letters of credit. The terms of the credit agreement require the Fund to pay a standby charge of 0.30% on the unused portion of the revolving credit facility and maintain certain financial covenants. The facility is secured by a fixed and floating charge over all Fund entities.

7. Long-term liabilities

	2005	2004
Senior Debt Long Sault Rapids		
Interest at rates varying from 10.16% to 10.21% repayable in monthly blended installments of $402, maturing December, 2028.	$ 42,868	$ 43,310
Senior Debt Chute Ford		
Interest rate of 11.55% repayable in monthly blended installments of $64, maturing April, 2020.	5,335	5,473
Sanger Bonds		
California Pollution Control Finance Authority Variable Rate Demand Resource Recovery Revenue Bonds Series 1990A, payable monthly, maturing September, 2020. US $19,200. The effective interest rate for 2005 is 2.50%. (2004 – 1.29%).	22,385	23,109
Bella Vista Water Loans		
Water Infrastructure Financing Authority of Arizona Interest rates of 6.10% and 6.26% repayable in monthly and quarterly installments, maturing December, 2017 and March, 2020. The balance of these notes at December 31, 2005 was US $134 and US $1,802 respectively (2004 – US $141 and US $1,872).	2,257	2,422
Litchfield Park Service Company Bonds		
1999 and 2001 IDA Bonds. Interest rates of 5.87% and 6.71% repayable in semi-annual installments, maturing October 2023 and October 2031. The balance of these notes at December 31, 2005 was US $5,086 and US $8,339, respectively (2004 – US $5,254 and US $8,423).	15,653	16,462
Revolving credit facility (note 6)		
Revolving line of credit interest rate is equal to bankers acceptance or LIBOR plus 1.125 %. The effective rate of interest for 2005 was 4.16% (2004 – 4.56%).	69,300	30,000
Other	209	241
	$ 158,007	$ 121,017
Less: current portion	(1,005)	(932)
	$ 157,002	$ 120,085

Each of the facility level debt is secured by the respective facility with no other recourse to the Fund. The loans have certain financial covenants, which must be maintained on a quarterly basis. Non compliance with the covenants could restrict cash distributions to the Fund from specific facilities. Interest paid on the long-term liabilities was $9,588 (2004 – $12,000).

Principal payments due in the next five years and thereafter are:

2006	$ 1,005
2007	1,097
2008	70,503
2009	1,313
2010	1,440
Thereafter	82,649
	$ 158,007

8. Convertible debentures

In 2004, the Fund issued 85,000 convertible unsecured subordinated debentures at a price of $1 per debenture for gross proceeds of $85,000 and net proceeds of $81,105. The debenture issue costs of $3,895 are deferred and amortized over the term of the convertible debentures. The debentures are due July 31, 2011 and bear interest at 6.65% per annum, payable semi-annually in arrears on January 31 and July 31 each year. The convertible debentures are convertible into trust units of the Fund at the option of the holder at a conversion price of $10.65 per trust unit, being a ratio of approximately 93.8967 trust units per $1 principal amount of debentures in trust units or cash. The debentures may not be redeemed by the Fund prior to July 31, 2007. The Fund performed an evaluation of the embedded holder option and determined that its value was nominal and as a result the entire amount of the debenture is classified as a liability.

Total interest on the convertible debentures in 2005 was $5,653 (2004 - $2,555).

9. Other long-term liabilities

	2005	**2004**
Subsidy		
A portion of the revenue received by a subsidiary of the Fund for the sale of electricity was considered a subsidy. US $3,685.	$ 4,049	$ 3,942
Bonds Payable		
Obligation to the City of Sanger due October 1, 2011 at interest rates varying from 5.15% to 5.55%. US $1,205 (2004 – US $1,370).	1,405	1,649
Customer Deposits		
Each facility in the Infrastructure Division is obligated by its respective State Regulator to collect a deposit from each customer of its facilities when services are connected. The deposits are refundable when allowed under the facilities' regulatory agreement.	3,061	2,850
Capital Leases		
Obligation for equipment leases.	2,360	853
Other	-	400
	10,875	9,694
Less: current portion	(440)	(734)
	$ 10,435	$ 8,960

Principal payments due in the next five years and thereafter are:

2006	$ 440
2007	4,497
2008	404
2009	274
2010	275
Thereafter	4,985
	$ 10,875

Interest paid on other long-term liabilities was $315 (2004 – $440).

10. Trust units

Authorized trust units

The Declaration of Trust provides that an unlimited number of units may be issued. Each unit represents an undivided beneficial interest in any distribution from the Fund and in the net assets in the event of termination or wind-up. All units are the same class with equal rights and privileges.

Trust units are redeemable at the holder's option at amounts related to market prices at the time subject to a maximum of $250 in cash redemptions in any particular calendar month. Redemptions in excess of this amount shall be paid by way of a distribution in kind of a pro rata amount of certain of the Fund's assets, including the securities purchased by the Fund, but not to include the generating facilities.

Issued trust units

	Number of units	**Amount**
Balance as at December 31, 2003	67,887,612	$ 638,213
Issued pursuant to acquisition of the remaining 52.7% of the outstanding principal amount of convertible debentures of KMS Power Income Fund.	1,803,980	16,663
Issue costs		(700)
Balance as at December 31, 2005 and 2004	69,691,592	$ 654,176

11. Income taxes

The provision for income taxes in the consolidated statements of earnings represents an effective tax rate different than the Canadian enacted statutory rate of 33.61% (2004 – 33.66%). The differences are as follows:

	2005	2004
Earnings before income tax and minority interest	$ 24,392	$ 25,904
Less: income taxed directly in hands of unitholders, not the Fund	(35,163)	(36,090)
Earnings / (losses) of taxable entities	(10,771)	(10,186)
Computed income tax expense (recovery) at Canadian statutory rate	(3,620)	(3,429)
Increase (decrease) resulting from:		
Change in substantively enacted tax rate	1,259	-
Operating in countries with different income tax rates	223	996
Valuation allowances	9,191	6,090
Manufacturing and processing deduction	121	53
Large corporations tax, alternative minimum tax and state taxes	8	249
Unrealized foreign exchange rate difference	(680)	(828)
Other	(3,898)	(846)
Income tax expense	$ 2,604	$ 2,285

The tax effect of temporary differences at the Fund's subsidiaries that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2005 and 2004 are presented below:

	2005	2004
Future tax assets:		
Non-capital loss, debt restructuring charges and currently non-deductible interest carryforwards	$ 15,079	$ 14,626
Unrealized foreign exchange differences on US entity debt	17,330	15,109
Customer advances in aid of construction – difference between net book value and tax value	4,572	3,794
Total future tax assets	36,981	33,529
Less: Valuation allowance	(33,193)	(24,002)
	3,788	9,527
Future tax liabilities:		
Capital assets – differences between net book value and undepreciated capital cost	(39,690)	(43,495)
Intangible assets – difference between net book value and cumulative eligible capital	(12,759)	(15,678)
Other	(1,680)	(1,124)
Total future tax liabilities	(54,129)	(60,297)
Net future tax liability	$ (50,341)	$ (50,770)
Classified in the financial statements as:		
Future current income tax asset	$ -	$ 18
Future non-current income tax asset	7,719	6,425
Future current income tax liability	(1,143)	(1,449)
Future non-current income tax liability	(56,917)	(55,764)
	$ (50,341)	$ (50,770)

At December 31, 2005, the Fund itself has financing expenses and underwriters' fees of $4,665 (2004 - $9,148) which will be deductible by the Fund and which will reduce the ultimate amount taxable to the unitholders over the next four years. This will be offset by additions to the unitholders' taxable income since the Fund's capital assets have an accounting basis which exceeds their tax basis by $8,111 (2004 - $6,643). In addition, two trusts wholly owned by the Fund have capital assets with an accounting basis which exceeds their tax basis by $1,706 (2004 - $3,850).

12. Algonquin Power Group

In addition to the transactions described in note 3 with AirSource and note 4 with APC, the following related party transactions occurred:

APMI provides management services including advice and consultation concerning business planning, support, guidance and policy making and general management services. In 2005 and 2004, APMI was paid on a cost recovery basis for all costs incurred and charged $825 (2004-$777). APMI is also entitled to an incentive fee of 25% on all distributable cash generated in excess of $0.92 per trust unit. During 2005 and 2004 no incentive fees were earned by APMI.

The Fund has leased its head office facilities since 2001 from an entity owned by the shareholders of APMI on a net basis. Base lease costs for 2005 were $296 (2004 - $263) and additional rent representing operating cost was $198 (2004 - $120).

When appropriate for use in its operations the Fund utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI. The Fund entered into an agreement and remitted $1.3 million to the affiliate as an advance against expense reimbursement (including engine utilization reserves) for the Fund's business use of the aircraft. Under the terms of this arrangement, the Fund will have priority access to make use of the aircraft for a specified number of hours at a cost equal solely to the third party direct operating costs incurred when flying the aircraft; such direct operating costs do not provide the affiliate with any profit or return on or of the capital committed to the aircraft.

13. Contingencies

(a) Land and Water Leases

Certain of the operating entities have entered into agreements to lease either the land and/or the water rights for the hydroelectric generating facility or to pay in lieu of property tax an amount based on electricity production. The terms of these leases continue up to 2048. These payments typically have a fixed and variable component. The variable fee is generally linked to actual power production or gross revenue. The Fund incurred $2,394 during 2005 (2004 - $2,919) in respect of these agreements for the consolidated facilities.

(b) Contingencies

The Fund and its subsidiaries are involved in various claims and litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Fund's exposure to such litigation to be material to these financial statements.

14. Fair value of financial instruments and derivatives

The carrying amount of the Fund's cash and cash equivalents, accounts receivable, funds held in reserve, accounts payable and accrued liabilities, due to Algonquin Power Group and cash distribution payable, approximate fair market value.

The carrying amount of the Fund's long-term investments is dependant on the underlying operations and accordingly a fair value is not readily available. The Fund has long-term liabilities at fixed interest rates. The fair value of these long-term liabilities at current rates would be $160,284 (2004 - $121,931). The book value of these long-term liabilities is $158,007 (2004 - $121,017). The fair value of other long-term liabilities approximates their carrying value, with the exception of the Joliet subsidy which is not readily available.

Deferred credits include payments made by developers to the Infrastructure Division of which a portion based on revenue for the development in question needs to be paid back over time. These amounts do not bear interest and the amount to be repaid is uncertain and not determinable. The carrying value is estimated based on historical payment patterns.

The Fund has entered into foreign exchange contracts to manage its exposure to the US dollar as significant cash flows are generated in the US. The Fund sells specific amounts of currencies at predetermined dates and exchange rates which are matched with the anticipated operational cash flows. Contracts in place at December 31, 2005 amounted to US $97,808 until 2010 at a weighted average exchange rate of $1.34. The fair value of the outstanding futures contracts is $17,053 at December 31, 2005 (2004 – $16,600).

15. Cash distributions

Distributable income, is distributed monthly. Distributions are declared to unitholders of record on the last day of the month and are distributed 45 days after declaration. The monthly distribution for 2005 was $0.0766 per trust unit for each month for a total of $0.92 for 2005, the same as 2004.

16. Basic and diluted net earnings per trust unit

Net earnings per trust unit has been calculated using the weighted average number of units outstanding during the year. The weighted average number of units outstanding for 2005 was 69,691,592 (2004 – 68,821,431). The net earnings per trust unit for 2005 was $0.31 (2004 - $0.33). The effect of conversion of the convertible debentures into trust units was not included in the computation of fully diluted net earnings per trust unit as the effect of conversion would be anti-dilutive.

17. Other income

Other income includes the following items:

	2005	2004
Interest income	$ 4,884	$ 2,846
Dividend income	3,470	2,928
Income from note receivable prepayment	-	3,634
Sale of gas collection partnership interest	1,204	-
Equity income	333	378
Other	1,507	1,157
	$ 11,398	$ 10,943

18. Segmented information

	2005	2004
Revenue		
Canada	$ 48,679	$ 51,725
United States	130,645	108,798
	$ 179,324	$ 160,523
Capital assets		
Canada	$ 309,669	$ 319,445
United States	317,983	291,311
	$ 627,652	$ 610,756
Intangible assets		
Canada	$ 25,260	$ 27,262
United States	51,588	56,415
	$ 76,848	$ 83,677

Revenues are attributable to the two countries based on the location of the underlying generating and infrastructure facilities.

Operational segments

The Fund identifies four business categories it operates in: hydro, natural gas cogeneration, alternative fuels and infrastructure assets. The operations and assets for these segments are outlined on the following page:

Year ended December 31, 2005

Revenue	Hydro	Cogeneration	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	44,102	75,674	16,262	-	-	136,038
Waste disposal fees	-	-	13,031	-	-	13,031
Water reclamation and distribution	-	-	-	28,371	-	28,371
Other revenue	-	1,884	-	-	-	1,884
Total Revenue	44,102	77,558	29,293	28,371	-	179,324
Operating expenses	17,008	52,822	25,014	11,847	-	106,691
Operating profit	27,094	24,736	4,279	16,524	-	72,633
Other administration costs	(99)	-	(130)	(106)	(5,604)	(5,939)
Interest expense	(5,068)	(987)	(385)	(1,140)	(8,799)	(16,379)
Interest, dividend and other income	1,250	3,471	6,494	44	139	11,398
Write down of capital and intangible assets	-	(3,533)	-	-	-	(3,533)
Amortization of capital assets	(9,672)	(6,714)	(5,155)	(5,784)	-	(27,325)
Amortization of intangible assets	(1)	(3,429)	(2,336)	(697)	-	(6,463)
Earnings before income taxes and minority interest	13,504	13,544	2,767	8,841	(14,264)	24,392
Capital assets	276,850	91,591	93,072	166,139	-	627,652
Intangible assets	20	22,295	26,438	28,095	-	76,848
Capital expenditures	436	(120)	5,234	10,127	235	15,912
Acquisition of operating entities	1,140	-	-	27,812	-	28,952
Total assets	295,834	146,158	162,431	206,900	12,478	823,801

Year ended December 31, 2004

Revenue	Hydro	Cogeneration	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	43,268	71,846	7,867	-	-	122,981
Waste disposal fees	-	-	14,086	-	-	14,086
Water reclamation and distribution	-	-	-	23,456	-	23,456
Total Revenue	43,268	71,846	21,953	23,456	-	160,523
Operating expenses	18,070	50,597	15,124	10,849	-	94,640
Operating profit	25,198	21,249	6,829	12,607	-	65,883
Other administration costs	(137)	-	(152)	(84)	(3,882)	(4,255)
Interest expense	(5,177)	(772)	(355)	(1,135)	(5,001)	(12,440)
Interest, dividend and other income	1,185	4,024	1,352	9	4,373	10,943
Write down of capital and intangible assets	-	-	(1,932)	-	-	(1,932)
Amortization of capital assets	(9,598)	(6,741)	(4,901)	(5,490)	-	(26,730)
Amortization of intangible assets	(1)	(2,849)	(2,212)	(503)	-	(5,565)
Earnings before income taxes and minority interest	11,470	14,911	(1,371)	5,404	(4,510)	25,904
Capital assets	285,860	90,868	94,562	139,466	-	610,756
Intangible assets	21	33,775	28,775	21,106	-	83,677
Capital expenditures	-	1,514	476	14,833	513	17,336
Acquisition of operating entities	-	-	11,374	3,785	-	15,159
Total assets	307,280	158,023	150,234	176,159	33,100	824,796

All energy sales are earned from contracts with large public utilities. The following utilities contributed more than 10% of these total revenues in either 2005 or 2004: Ontario Electricity Financial Corporation 7% (2004 – 10%), Hydro Québec 13% (2004-15%), Pacific Gas and Electric 12% (2004-15%), and Connecticut Light and Power 25% (2004-24%). The Fund has mitigated its credit risk to the extent possible by selling energy to these large utilities in various North American locations.

19. Joint venture investments

		Fund's Proportionate Share					
	Ownership Interest	Income / (loss) Before Income Tax Year ended December 31		Net Assets December 31		Cashflow Generated from Operations Year ended December 31	
		2005	**2004**	**2005**	**2004**	**2005**	**2004**
Valley Power Limited Partnership	50%	$ 152	$ 281	$ 8,463	$ 9,016	$ 746	$ 875
Campbellford Limited Partnership	50%	(94)	-	3,312	-	140	-
		$ 58	$ 281	$ 11,775	$ 9,016	$ 886	$ 875

20. Guarantees

In the normal course of operations, the Fund executes agreements that provide letters of credit to third parties to secure certain amounts of indebtedness or performance. At December 31, 2005, letters of credit outstanding amounted to $44,883 (2004 - $26,705).

21. Subsequent events

Subsequent to year end, the Fund drew an additional $26.4 million on its credit facility, of which, $22.9 million was used to fund the construction requirements of AirSource. In addition, Management reached an agreement with the Fund's senior lenders to increase its revolving credit facility by $30.0 million to bring the total to $175.0 million. There are no material changes to the terms and conditions of the Fund's revolving credit facility. This increase is effective until July 28, 2006.

Corporate Information and Contacts

Trustees

The Management Group

Algonquin Power Management Inc.
Chris K. Jarratt, Chief Executive Officer and Director
John M.H. Huxley, Director
Ian E. Robertson, Director
David C. Kerr, Director

Algonquin Power Income Fund

Peter Kampian, Chief Financial Officer

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Email: apif@algonquinpower.com
Website: www.algonquinpower.com

Registrar and Transfer Agent
CIBC Mellon Trust Company
320 Bay Street PO Box 1
Toronto, Ontario, M5H 4A6

Annual General Meeting
April 27, 2005, 4:00 p.m.
Blake, Cassels & Graydon LLP
199 Bay Street, Floor 23
Toronto, Ontario

Stock Exchange
The Toronto Stock Exchange: APF.UN and APF.DB

Auditors
KPMG LLP
Toronto, Ontario

Legal Counsel
Blake, Cassels & Graydon LLP
Toronto, Ontario

Algonquin Power: Portfolio of Assets

YEAR	ASSETS	FACILITIES	CAPACITY (MW) / CONNECTIONS
1997	Hydroelectric	14	19
1998	Hydroelectric	29	69
1999	Hydroelectric	38	101
2000	Hydroelectric	41	115
2001	Hydroelectric	47	141
	Cogeneration	Interest in 3	288
	Alternative Fuels	Interest in 3	66
	Infrastructure	2	4,500 connections
2002	Hydroelectric	47	141
	Cogeneration	Interest in 3 Own Operate 2	288 54
	Alternative Fuels	Interest in 3 Own Operate 2	66 13
	Infrastructure	5	13,500 connections
2003	Hydroelectric	47	141
	Cogeneration	Interest in 3 Own Operate 3	288 110
	Alternative Fuels	Interest in 3 Own Operate 2	66 13
	Infrastructure	6	36,800 connections
2004	Hydroelectric	47	141
	Cogeneration	Interest in 2 Own Operate 3	138 110
	Alternative Fuels	Interest in 4 Own Operate 14	165 49
	Infrastructure	6	40,000 connections
2005	Hydroelectric	48	143
	Cogeneration	Interest in 2 Own Operate 3	138 110
	Alternative Fuels	Interest in 4 Own Operate 13	165 46
	Infrastructure	15	56,000 connections

www.algonquinpower.com

ATTACHMENT B

WATER UTILITY INDUSTRY

INDUSTRY TIMELINESS: 93 (of 98)

The Water Utility Industry continues to rank near the bottom of the *Value Line* investment universe for Timeliness, based on our momentum-driven ranking system. The stocks here struggled with abnormally wet weather in recent months.

However, we think that they will probably rebound somewhat this year. Assuming more normal weather conditions, we expect that the industry, as a whole, will continue to reap the benefits of a more cooperative regulatory commission, particularly in California.

Nevertheless, these stocks still lack long-term appreciation potential. Although recent changes in the makeup of regulatory bodies and improved weather conditions paint a more favorable backdrop, we still have some concerns about escalating infrastructure costs and the effects on the industry's earnings potential out to late decade. None of the stock's covered in the next few pages currently stand out for gains appeal. Meanwhile, we are concerned that the capital constraints that we anticipate will diminish the income appeal of many of these issues.

Improved Regulatory Environment

Water utility companies have been hurt by unfavorable and delayed rate relief case rulings in recent years. Indeed, rulings by regulatory authorities, which were put in place to keep a balance of power between consumers and providers, have long been one-sided, with utilities typically coming out on the short end of the stick. However, it finally looks as though things are changing, particularly for those companies with operations in California. Governor Schwarzenegger has made numerous changes to the California Public Utilities Commission (CPUC), which is responsible for ruling on general rate case requests in the Golden State, most notably its board members. Constituents now appear to be more business-friendly, judging from a host of more-favorable case rulings in recent months. This is a major boon for businesses based in California such as *American States Water Co.* and *California Water Service Group.*

Escalating Expenses

Despite the aforementioned changes, regulatory laws on pipeline and well infrastructure continue to grow more stringent. Current infrastructures are typically in excess of 100 years old and need maintenance and, in some cases, significant renovations or rebuilding. Meanwhile, geopolitical concerns are making matters worse, due to the threat of bioterrorism on U.S. water pipelines and reservoirs. As a result, these costs are only likely to increase going forward. In all, infrastructure repair costs are expected to climb to the hundreds of millions of dollars over the next two decades. This is particularly bad for smaller water companies, as they lack the capital to take these initiatives. Instead, many are being forced to sell, resulting in massive consolidation within the industry. That said, many of the larger, more flexible companies with the money to meet the higher costs have been using the weakness to improve their operations and increase their customer base. *Aqua America*, the largest water utility in our Survey, is a prime example, closing the doors on over 100 acquisitions in the past five years. In doing so, it has doubled its revenue base. The company does not appear to be slowing down, either. Its buying ways give it the best 3- to 5-year appreciation potential of the all the stocks in this industry.

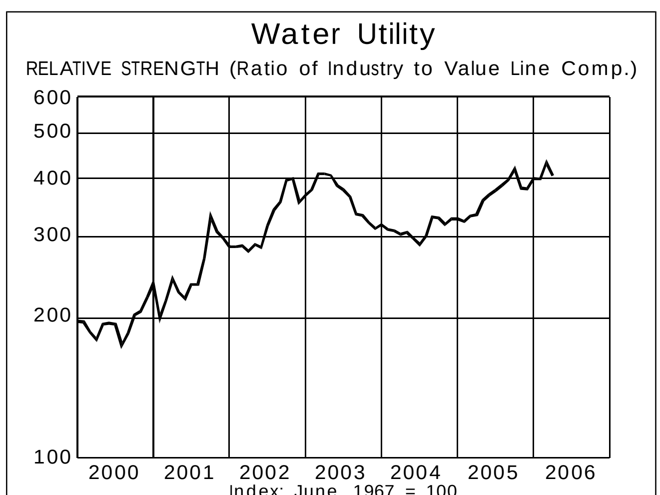
Investment Advice

Most investors will probably want to steer clear of the stocks in this industry. None of them are ranked higher than 3 (Average) for Timeliness for the coming six to 12 months, and not one holds better-than-modest 3- to 5-year appreciation potential. As a result, we think that growth-oriented investors will want to look elsewhere. Meanwhile, the income appeal of many of these stocks has been diminished in recent months, as well. Although water utility stocks have long generated a steady stream of income, recent price appreciation, coupled with a rising interest-rate environment, has increased the income-producing appeal of alternative investments. That said, we think that more-conservative investors may find *California Water* appealing. The stock is ranked 2 (Above Average) for Safety and has historically offered a steady stream of income. As always, we recommend that potential investors take a careful look at the individual reports on the following pages before making any financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2002	2003	2004	2005	2006	2007		09-11
925.2	1030.0	1173.6	*1250*	*1350*	*1450*	Revenues ($mill)	*1925*
107.8	112.6	105.7	*155*	*170*	*190*	Net Profit ($mill)	*260*
38.6%	39.7%	39.1%	*39.0%*	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
- -	- -	- -	*Nil*	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
54.1%	51.0%	49.1%	*52.0%*	*51.0%*	*50.0%*	Long-Term Debt Ratio	*50.0%*
45.7%	48.8%	50.7%	*48.0%*	*49.0%*	*50.0%*	Common Equity Ratio	*50.0%*
2116.4	2449.1	2785.6	*3000*	*3300*	*3575*	Total Capital ($mill)	*4600*
2955.1	3405.6	3836.9	*4125*	*4125*	*4875*	Net Plant ($mill)	*6100*
6.9%	5.9%	6.0%	*7.0%*	*7.5%*	*8.0%*	Return on Total Cap'l	*8.5%*
11.1%	8.8%	9.0%	*11.0%*	*10.0%*	*10.5%*	Return on Shr. Equity	*11.5%*
11.1%	8.8%	9.0%	*11.0%*	*10.0%*	*10.5%*	Return on Com Equity	*11.5%*
4.0%	2.7%	3.1%	*5.0%*	*5.0%*	*5.5%*	Retained to Com Eq	*5.0%*
64%	70%	66%	*60%*	*55%*	*55%*	All Div'ds to Net Prof	*55%*
21.6	25.6	25.4				Avg Ann'l P/E Ratio	*18.0*
1.18	1.46	1.34		*Bold figures are Value Line estimates*		Relative P/E Ratio	*1.20*
3.0%	2.7%	2.6%				Avg Ann'l Div'd Yield	*2.5%*



AMER. STATES WATER NYSE-AWR

RECENT PRICE **39.70** | P/E RATIO **27.2** (Trailing: 33.1 Median: 16.0) | RELATIVE P/E RATIO **1.42** | DIV'D YLD **2.3%** | VALUE LINE

TIMELINESS 3 Raised 3/24/06
SAFETY 3 New 2/4/00
TECHNICAL 3 Lowered 11/18/05
BETA .70 (1.00 = Market)

High:	14.0	16.1	17.1	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	39.8
Low:	10.5	12.5	13.5	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3

Target Price Range 2009 | 2010 | 2011

2009-11 PROJECTIONS

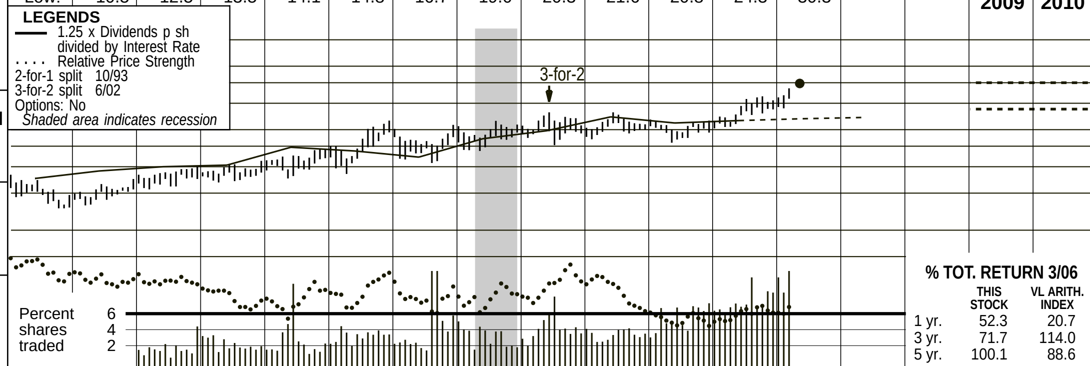
	Price	Gain	Ann'l Total Return
High	40	(Nil)	3%
Low	30	(-25%)	-4%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	1	0	0	0	0	0	0

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	42	54	48
to Sell	41	33	41
Hld's(000)	6199	6302	6273



% TOT. RETURN 3/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	52.3	20.7
3 yr.	71.7	114.0
5 yr.	100.1	88.6

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
9.58	9.15	10.10	9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	*14.85*	*15.35*	Revenues per sh	*17.50*
1.49	1.78	1.81	1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.22	*2.85*	*2.90*	"Cash Flow" per sh	*3.45*
.94	1.19	1.15	1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.33	*1.45*	*1.55*	Earnings per sh A	*1.80*
.72	.73	.77	.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	*.91*	*.91*	Div'd Decl'd per sh B■	*.96*
2.53	2.77	2.31	1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	*4.00*	*4.10*	Cap'l Spending per sh	*4.50*
7.54	8.39	8.85	9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	*17.15*	*17.80*	Book Value per sh	*20.00*
9.43	9.91	9.96	11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	*17.50*	*18.25*	Common Shs Outst'g C	*20.50*
10.2	8.8	10.6	13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.7	*Bold figures are*		Avg Ann'l P/E Ratio	*19.5*
.76	.56	.64	.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.14	*Value Line*		Relative P/E Ratio	*1.25*
7.5%	7.0%	6.3%	5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*2.7%*

CAPITAL STRUCTURE as of 12/31/05
Total Debt $296.0 mill. **Due in 5 Yrs** $3.2 mill.
LT Debt $268.4 mill. **LT Interest** $18.0 mill.
(Total interest coverage: 2.2x)

Leases, Uncapitalized: None
Pension Assets-12/05 $56.6 mill.
Oblig. $83.2 mill.
Pfd Stock None. **Pfd Div'd** None.

Common Stock 16,797,952 shs.

MARKET CAP: $675 million (Small Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
151.5	153.8	148.1	173.4	184.0	197.5	209.2	212.7	228.0	236.2	*260*	*280*	Revenues ($mill)	*350*
13.5	14.1	14.6	16.1	18.0	20.4	20.3	11.9	16.5	22.5	*26.0*	*29.0*	Net Profit ($mill)	*37.0*
43.3%	41.1%	40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	45.1%	*43.0%*	*42.0%*	Income Tax Rate	*42.0%*
- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
41.9%	43.0%	43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	*50.5%*	*51.0%*	Long-Term Debt Ratio	*52.0%*
57.3%	56.3%	55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	*49.5%*	*49.0%*	Common Equity Ratio	*48.0%*
256.0	268.4	277.1	328.2	371.1	447.6	444.4	442.3	480.4	532.5	*600*	*665*	Total Capital ($mill)	*850*
357.8	383.6	414.8	449.6	509.1	539.8	563.3	602.3	664.2	713.2	*785*	*835*	Net Plant ($mill)	*1000*
6.9%	6.9%	7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.8%	*6.0%*	*6.0%*	Return on Total Cap'l	*6.0%*
9.0%	9.2%	9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	*8.5%*	*9.0%*	Return on Shr. Equity	*9.0%*
9.0%	9.2%	9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	*8.5%*	*9.0%*	Return on Com Equity	*9.0%*
2.4%	1.8%	2.1%	2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	*3.5%*	*4.0%*	Retained to Com Eq	*4.5%*
73%	80%	78%	72%	68%	65%	65%	113%	84%	67%	*62%*	*57%*	All Div'ds to Net Prof	*52%*

CURRENT POSITION ($MILL.)	2003	2004	12/31/05
Cash Assets	12.8	4.3	13.0
Receivables	11.8	14.3	13.3
Inventory (Avg Cst)	1.4	1.5	1.4
Other	32.4	32.9	41.2
Current Assets	58.4	53.0	68.9
Accts Payable	18.8	18.2	19.7
Debt Due	56.8	45.9	27.6
Other	20.3	22.2	30.3
Current Liab.	95.90	86.3	77.6
Fix. Chg. Cov.	237%	246%	325%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	3.5%	3.0%	3.5%
"Cash Flow"	3.0%	2.0%	6.0%
Earnings	- -	-1.0%	8.0%
Dividends	1.0%	1.0%0	1.0%
Book Value	4.0%	4.5%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	46.7	51.8	63.7	50.5	212.7
2004	46.7	59.3	69.0	53.0	228.0
2005	49.8	60.5	68.1	57.8	236.2
2006	*55.0*	*67.0*	*76.0*	*62.0*	*260*
2007	*60.0*	*72.0*	*81.0*	*67.0*	*280*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	.20	.19	.51	d.12	.78
2004	.08	.30	.52	.15	1.05
2005	.22	.34	.47	.30	1.33
2006	*.24*	*.37*	*.55*	*.29*	*1.45*
2007	*.27*	*.39*	*.57*	*.32*	*1.55*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.217	.217	.217	.221	.87
2003	.221	.221	.221	.221	.88
2004	.221	.221	.221	.225	.89
2005	.225	.225	.225	.225	.90
2006	.225				

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to approximately 23,000 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00); 11,400 customers. Has roughly 515 employees. Off. & dir. own 3.1% of common stock (4/06 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Incorporated: CA. Add.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel.: 909-394-3600. Web: www.aswater.com.

American States Water ought to post solid earnings growth this year . . . Although we think that better weather conditions will play a big role, the real growth driver should continue to be an improving regulatory environment. Indeed, the California Public Utilities Commission (CPUC), which is in charge of supervising local utilities, has undergone a significant facelift in recent months. What many thought to be antagonists of utilities was replaced with more business-friendly members. The changes paint a favorable backdrop for AWR going forward and ought to help it post earnings of $1.45 this year. The CPUC recently approved rate increases for Region II and Region I customer service areas of AWR's GSWC unit effective January 1, 2006. The rate hikes add more than $5.6 million in annual revenues.

. . . and next. Meanwhile, AWR has filed a new general rate case for Region II, requesting $14.9 million increase in revenues based on a 11.2% ROE, effective January, 2007. Although a favorable decision is not a given, we think that the recent rulings augur well for AWR. Thus, we are introducing a 2007 share-net estimate of $1.55, representing 7% growth.

Nevertheless, we look for bottom-line growth to become negligible in 2008. Despite a better regulatory environment, AWR must continue to contend with ballooning infrastructure costs. It will likely be forced to tap equity and debt markets to make the changes, due to its strapped cash position. We remain concerned that such financing activity will dilute earnings and could potentially even keep AWR from making acquisitions.

Most investors will want to avoid these shares. They are untimely for the coming six to 12 months and hold limited 3- to 5-year appreciation potential at their current quote. AWR shares have appreciated roughly 20% since our January review. Meanwhile, there are more attractive income vehicles elsewhere. That said, investors should note that AWR continues to make headway in its attempt to increase its business with the military. Further contract wins could provide another much-needed avenue of revenue growth and even prove our projections modest.

Andre J. Costanza *April 28, 2006*

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢. Quarterly earnings may not sum due to change in share count. Next earnings report due early May.
(B) Dividends historically paid in early March, June, September, December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B+
Stock's Price Stability	80
Price Growth Persistence	80
Earnings Predictability	60

CALIFORNIA WATER NYSE-CWT

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
44.60	26.4	(Trailing: 30.3 / Median: 19.0)	1.38	2.6%	VALUE LINE

TIMELINESS 4 Raised 11/4/05

SAFETY 2 Lowered 8/11/95

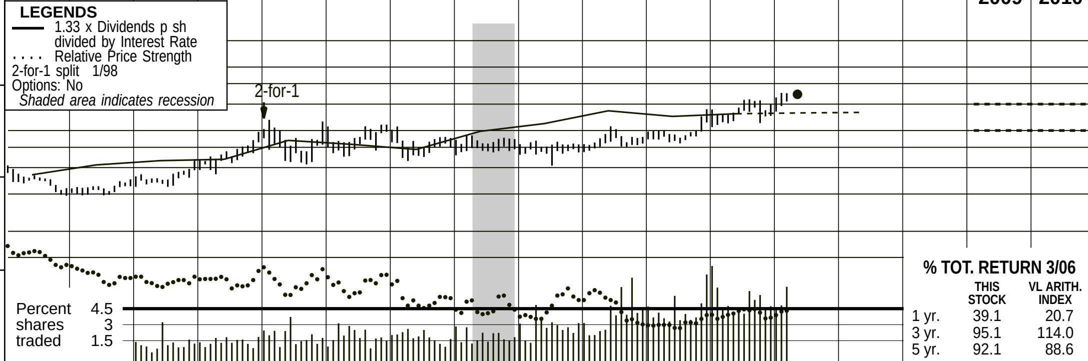
TECHNICAL 3 Raised 4/14/06

BETA .75 (1.00 = Market)

High:	17.6	21.9	29.6	33.8	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.7
Low:	14.8	16.3	18.6	20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2	36.8

Target Price Range
2009 | 2010 | 2011

LEGENDS
— 1.33 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 1/98
Options: No
Shaded area indicates recession



2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(-10%)	*Nil*
Low	30	(-35%)	*-6%*

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	1	0	0	0	0	0	0
Options	0	0	5	2	0	0	0	0	1
to Sell	1	0	5	2	0	0	0	0	2

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	48	38	39
to Sell	24	39	32
Hld's(000)	4744	4897	4959

% TOT. RETURN 3/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	39.1	20.7
3 yr.	95.1	114.0
5 yr.	92.1	88.6

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
10.93	11.18	12.29	13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	*17.30*	*18.70*	Revenues per sh	*21.60*
1.97	1.98	1.92	2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.04	*3.00*	*3.40*	"Cash Flow" per sh	*3.60*
1.25	1.21	1.09	1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	*1.70*	*1.75*	Earnings per sh A	*1.80*
.87	.90	.93	.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	*1.15*	*1.16*	Div'd Decl'd per sh B ■	*1.22*
2.36	3.03	3.09	2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	5.14	*5.00*	*4.50*	Cap'l Spending per sh	*4.00*
10.04	10.35	10.51	10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.98	*16.70*	*17.50*	Book Value per sh C	*20.45*
11.38	11.38	11.38	11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	*19.00*	*19.50*	Common Shs Outst'g D	*22.00*
10.4	11.2	14.1	13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	*Bold figures are*		Avg Ann'l P/E Ratio	*19.0*
.77	.72	.86	.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.30	*Value Line*		Relative P/E Ratio	*1.25*
6.7%	6.6%	6.1%	5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*3.5%*

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
182.8	195.3	186.3	206.4	244.8	246.8	263.2	277.1	315.6	320.7	*345*	*365*	Revenues ($mill)	*475*
19.1	23.3	18.4	19.9	20.0	14.4	19.1	19.4	26.0	27.2	*33.0*	*35.0*	Net Profit ($mill)	*40.0*
38.9%	37.4%	36.4%	37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	*41.0%*	*40.5%*	Income Tax Rate	*40.0%*
- -	- -	- -	- -	- -	- -	- -	10.3%	- -	- -	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
47.4%	45.4%	44.2%	46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.0%	*48.5%*	*49.0%*	Long-Term Debt Ratio	*49.5%*
51.4%	53.5%	54.7%	52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.4%	*51.0%*	*50.5%*	Common Equity Ratio	*50.0%*
299.9	306.7	308.6	333.8	388.8	402.7	453.1	498.4	565.9	571.6	*625*	*675*	Total Capital ($mill)	*900*
443.6	460.4	478.3	515.4	582.0	624.3	697.0	759.5	800.3	856.7	*925*	*950*	Net Plant ($mill)	*1125*
8.3%	9.4%	7.8%	7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.4%	*6.0%*	*6.5%*	Return on Total Cap'l	*5.5%*
12.1%	13.9%	10.7%	11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.1%	*8.5%*	*10.5%*	Return on Shr. Equity	*9.0%*
12.3%	14.1%	10.8%	11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	*9.0%*	*10.5%*	Return on Com Equity	*9.0%*
3.8%	6.0%	2.8%	3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	*3.5%*	*4.0%*	Retained to Com Eq	*3.0%*
69%	58%	74%	70%	82%	119%	90%	91%	77%	77%	*78%*	*63%*	All Div'ds to Net Prof	*67%*

CAPITAL STRUCTURE as of 12/31/05
Total Debt $275.2 mill. **Due in 5 Yrs** $5.3 mill.
LT Debt $274.1 mill. **LT Interest** $19.0 mill.

(LT interest earned: 2.4x; total int. cov.: 2.4x)

Pension Assets-12/05 $70.2 mill.
Oblig. $103.2 mill.
Pfd Stock $3.5 mill. **Pfd Div'd** $.15 mill.
139,000 shares, 4.4% cumulative ($25 par).

Common Stock 18,405,386 shs.
as of 3/6/06
MARKET CAP: $750 million (Small Cap)

CURRENT POSITION ($MILL.)	2003	2004	12/31/05
Cash Assets	2.9	18.8	9.5
Other	40.6	51.6	42.7
Current Assets	43.5	70.4	52.2
Accts Payable	23.8	19.8	36.1
Debt Due	7.3	- -	1.1
Other	32.5	36.4	39.6
Current Liab.	63.6	57.2	76.8
Fix. Chg. Cov.	218%	309%	361%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	3.0%	2.0%	*3.5%*
"Cash Flow"	2.5%	-0.5%	*4.5%*
Earnings	0.5%	-4.0%	*4.5%*
Dividends	1.5%	1.0%	*1.0%*
Book Value	2.5%	1.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	51.3	68.0	88.2	69.6	277.1
2004	60.2	88.9	97.1	69.4	315.6
2005	60.3	81.5	101.1	77.8	320.7
2006	*65.0*	*95.0*	*105*	*80.0*	*345*
2007	*70.0*	*100*	*110*	*85.0*	*365*

Cal-endar	EARNINGS PER SHARE A E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	d.05	.30	.53	.41	1.21
2004	.08	.59	.59	.20	1.46
2005	.03	.41	.71	.32	1.47
2006	*.10*	*.55*	*.72*	*.33*	*1.70*
2007	*.11*	*.57*	*.73*	*.34*	*1.75*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.28	.28	.28	.28	1.12
2003	.281	.281	.281	.281	1.12
2004	.283	.283	.283	.283	1.13
2005	.285	.285	.285	.285	1.14
2006	.2875				

BUSINESS: California Water Service Group provides regulated and nonregulated water service to over 2 million people (456,700 customers) in 75 communities in California, Washington, and New Mexico. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00). Revenue breakdown, '05: residential, 69%; business, 18%; public authorities, 5%; industrial, 4%; other, 4%. '05 reported deprec. rate: 3.6%. Has about 840 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwater.com.

California Water Service Group should bounce back handsomely this year. Extremely wet weather stymied earnings growth in 2005. However, we expect more-normalized conditions going forward. Moreover, the company should continue to benefit from recent changes at the California Public Utilities Commission (CPUC). Indeed, the CPUC, which is in charge of overseeing local utilities, has undergone sweeping personnel changes in recent months. The new constituents appear to be more business-friendly than the previous board members, handing down more timely and favorable rate case decisions of late. The company has a number of rate case filings still pending. Its general rate case for eight districts, representing roughly a quarter of its customer base is the most prominent. The case, which was filed in August, is requesting $11 million in 2006 and $6 million in 2007. The recent developments paint a favorable picture for CWT. In all, we expect CWT to post profits of $1.70 a share this year.

We expect earnings growth to slow considerably in 2007, though. The costs of maintaining well and pipeline infrastructures continue to increase at a rapid pace and will likely remain high for the foreseeable future, given the growing demands of the EPA on drinking water purification standards. However, CWT does not currently have the means to meet these expenses and will ultimately have to look to equity and debt markets in order to do so. As a result, we look for bottom-line growth to moderate to 3% next year and flatten out after that.

CWT shares will probably not appeal to most. The stock is ranked 4 (Below Average) for Timeliness and does not stand out for 3- to 5- year appreciation potential either, based on the capital constraints that we envision out to 2009-2011. Meanwhile, its dividend yield is not as appealing as it once was given the stock's recent price appreciation and the alternative income vehicles that are currently on the market.

That said, this issue may pique the interest of more-conservative investors looking to add a steady stream of income to their portfolios. CWT is ranked 2 (Above Average) for Safety.

Andre J. Costanza *April 28, 2006*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; 02, 8¢. Next earnings report due late July.
(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '05: $63.9 mill., $3.47/sh.
(D) In millions, adjusted for split.
(E) May not total due to change in shares.

Company's Financial Strength	B++
Stock's Price Stability	85
Price Growth Persistence	95
Earnings Predictability	65

SOUTHWEST WATER NDQ-SWWC

RECENT PRICE	16.00	P/E RATIO	40.0 (Trailing: 47.1, Median: 19.0)	RELATIVE P/E RATIO	2.08	DIV'D YLD	1.3%	VALUE LINE

TIMELINESS 4 Lowered 3/24/06
SAFETY 3 New 10/28/05
TECHNICAL 3 Lowered 2/24/06
BETA .70 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
High:	2.1	3.7	5.0	5.6	9.2	8.3	10.2	12.4	11.2	14.3	15.2	19.1
Low:	1.5	2.0	2.6	3.5	3.6	5.1	6.9	7.6	8.1	10.3	9.0	14.0

Target Price Range 2009 | 2010 | 2011

2009-11 PROJECTIONS

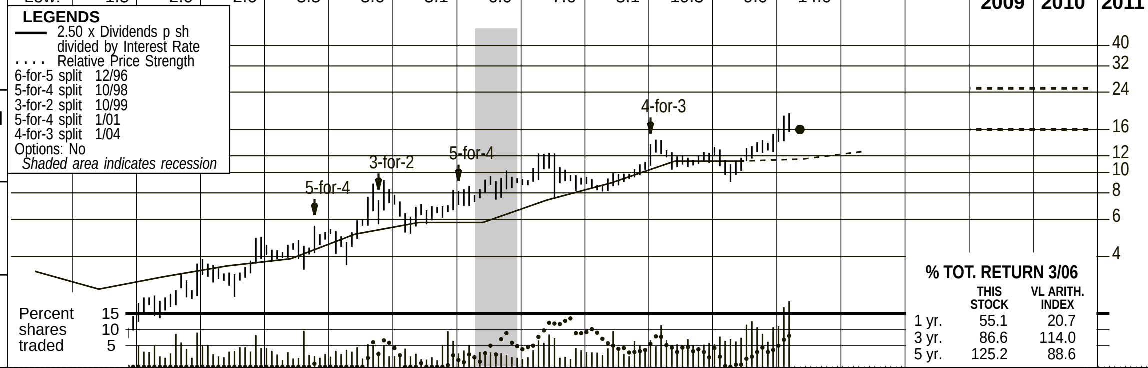
	Price	Gain	Ann'l Total Return
High	25	(+55%)	13%
Low	16	(Nil)	2%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	3	1	1	1	0	0	0
to Sell	0	0	1	2	1	1	1	1	1

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	28	39	31
to Sell	16	15	39
Hld's(000)	5044	5706	6376



% TOT. RETURN 3/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	55.1	20.7
3 yr.	86.6	114.0
5 yr.	125.2	88.6

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
3.58	3.34	3.77	4.03	4.20	4.84	5.31	5.61	5.63	6.16	7.49	8.15	9.12	10.70	9.23	9.10	*9.35*	*10.00*	Revenues per sh	*13.35*
.46	.28	.44	.38	.38	.44	.46	.53	.59	.65	.76	.87	.86	.91	.67	.78	*.85*	*1.00*	"Cash Flow" per sh	*1.45*
.22	.02	.19	.08	.09	.12	.15	.21	.25	.31	.38	.42	.39	.44	.23	.34	*.42*	*.51*	Earnings per sh A	*.95*
.18	.18	.18	.14	.08	.08	.09	.09	.10	.11	.13	.14	.15	.16	.18	.20	*.22*	*.24*	Div'd Decl'd per sh B	*.29*
.50	.39	.42	.60	.72	.84	.95	.74	.79	.53	.55	1.06	1.78	1.14	1.26	1.66	*1.50*	*1.50*	Cap'l Spending per sh	*1.90*
2.57	2.41	2.42	2.31	2.31	2.45	2.40	2.52	2.70	3.05	3.44	3.84	4.27	4.90	6.17	6.49	*6.70*	*6.95*	Book Value per sh D	*8.75*
11.48	11.60	11.80	11.97	12.13	11.74	12.45	12.65	12.83	13.12	13.99	14.17	14.35	16.17	20.36	22.33	*23.00*	*23.00*	Common Shs Outst'g C	*24.00*
14.2	NMF	14.5	35.8	22.3	14.6	16.5	16.9	17.2	19.6	17.0	19.8	24.8	21.2	NMF	35.5	*Bold figures are*		Avg Ann'l P/E Ratio	*21.0*
1.05	NMF	.88	2.11	1.46	.98	1.03	.97	.89	1.12	1.11	1.01	1.35	1.21	NMF	1.90	*Value Line*		Relative P/E Ratio	*1.40*
5.7%	5.5%	6.6%	4.7%	4.2%	4.7%	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5%	1.6%	*estimates*		Avg Ann'l Div'd Yield	*1.5%*

CAPITAL STRUCTURE as of 12/31/05
Total Debt $127.1 mill. **Due in 5 Yrs** $45.0 mill.
LT Debt $117.6 mill. **LT Interest** $7.0 mill.
(Total interest coverage: 2.4x) (45% of Cap'l)

Leases, Uncapitalized: Annual rentals $6.7 mill.
Pension Liability None

Pfd Stock $461,000 **Pfd Div'd** $24,000

Common Stock 22,325,961 shs.
as of 3/8/06
MARKET CAP: $350 million (Small Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
66.2	71.0	72.2	80.9	104.7	115.5	130.8	173.0	188.0	203.2	*215*	*230*	Revenues ($mill)	*320*
1.9	2.6	3.4	4.2	5.4	6.2	6.0	7.2	4.5	7.3	*9.0*	*11.0*	Net Profit ($mill)	*20.0*
41.8%	41.6%	39.5%	39.0%	37.0%	36.0%	34.9%	35.9%	36.1%	36.0%	*36.0%*	*36.0%*	Income Tax Rate	*36.0%*
--	--	--	--	--	14.4%	3.2%	--	11.0%	9.5%	*10.0%*	*10.0%*	AFUDC % to Net Profit	*8.5%*
50.2%	47.9%	48.7%	45.2%	48.8%	51.4%	56.7%	47.9%	47.9%	44.7%	*44.5%*	*47.5%*	Long-Term Debt Ratio	*44.0%*
48.9%	51.3%	50.5%	54.1%	50.7%	48.2%	42.9%	51.8%	52.0%	55.1%	*55.5%*	*52.5%*	Common Equity Ratio	*56.0%*
61.1	62.2	68.5	73.9	95.0	113.0	142.8	152.8	242.0	262.9	*280*	*305*	Total Capital ($mill)	*375*
91.4	102.1	109.2	113.7	157.8	171.1	203.9	219.5	302.6	344.8	*395*	*455*	Net Plant ($mill)	*695*
5.5%	6.8%	7.1%	7.6%	7.6%	7.6%	5.8%	6.2%	3.1%	4.1%	*4.5%*	*5.0%*	Return on Total Cap'l	*6.5%*
6.3%	8.0%	9.5%	10.3%	11.1%	11.4%	9.7%	9.0%	3.6%	5.0%	*6.0%*	*7.0%*	Return on Shr. Equity	*9.5%*
6.3%	8.1%	9.6%	10.4%	11.1%	11.4%	9.7%	9.1%	3.6%	5.0%	*6.0%*	*7.0%*	Return on Com Equity	*9.5%*
2.9%	4.5%	6.0%	7.0%	7.8%	7.8%	6.3%	5.8%	.8%	2.1%	*2.5%*	*3.0%*	Retained to Com Eq	*6.0%*
55%	45%	38%	33%	31%	32%	36%	36%	78%	58%	*56%*	*55%*	All Div'ds to Net Prof	*35%*

CURRENT POSITION ($MILL.)	2003	2004	12/31/05
Cash Assets	5.4	1.9	3.0
Receivables	19.8	23.9	26.5
Inventory (Avg Cst)	--	1.9	--
Other	10.2	17.6	18.2
Current Assets	35.4	45.3	47.7
Accts Payable	11.4	12.3	10.0
Debt Due	2.7	3.4	9.5
Other	17.3	20.0	21.1
Current Liab.	31.4	35.7	40.6

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	8.5%	8.5%	*5.5%*
"Cash Flow"	7.0%	3.5%	*10.5%*
Earnings	13.5%	1.5%	*18.0%*
Dividends	6.0%	10.0%	*8.0%*
Book Value	9.5%	14.0%	*7.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	36.1	41.5	51.4	44.0	173.0
2004	39.8	45.7	55.0	47.5	188.0
2005	45.2	51.3	54.7	52.0	203.2
2006	*50.0*	*55.0*	*60.0*	*50.0*	*215*
2007	*54.0*	*60.0*	*63.0*	*53.0*	*230*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	d.01	.13	.21	.11	.44
2004	--	.13	.12	d.02	.23
2005	d.01	.15	.14	.06	.34
2006	*.02*	*.16*	*.16*	*.08*	*.42*
2007	*.04*	*.18*	*.19*	*.10*	*.51*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.038	.038	.038	.038	.15
2003	.042	.042	.042	.046	.17
2004	.046	.046	.046	.050	.19
2005	.048	.048	.048	.052	.20
2006	.052	.052			

BUSINESS: Southwest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; utility infrastructure construction management; and public works services. It operates out of two groups, Utility (39% of 2005 revenues) and Services (61%). Utility owns and manages rate-regulated public water utilities in California, New Mexico, Oklahoma, and Texas. Services does mostly maintenance work on a contract basis. Off. & dir. own 8.2% of com. shs.; T. Rowe Price, 5.8% (4/06 proxy). Chrmn & CEO: Anton C. Garnier. Inc.: DE. Addr.: One Wilshire Building, 624 S. Gramd Avemie. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.southwestwater.com.

Southwest Water Company is getting improvements from both of its operating segments. The Utility Group has been benefiting from favorable weather and customer growth in New Mexico and Texas. Moreover, the Services Group rebounded, swinging from a slight loss in 2004 to a $3.6 million profit in 2005. Consequently, we look for healthy 24% and 21% share-net gains in 2006 and 2007.

The Utility Group will likely generate 40% of Southwest's revenues and about two-thirds of its earnings in 2006. Changes on the regulatory front in California and a recent acquisition should fuel profit growth here in the years to come. California Governor Schwarzenegger nominated two candidates to fill vacant spots on the California Public Utilities Commission (CPUC) early last year. These nominees bring with them a more utilities-friendly approach towards regulatory matters than their predecessors. As a result, we expect Southwest will have an easier time winning new rate cases in the region. The first of such rate decisions, under the new CPUC, has already been filed. The company is seeking an 11% return on equity, as compared to its current allowed return on equity of 9.8%. The outcome of this decision will power earnings in 2006 and beyond. Meanwhile, the purchase of Monarch Utilities in mid-2004 is helping to increase customer growth in New Mexico and Texas. Continued top-line expansion should come from recently filed rate increases in Texas that will likely take effect within the next few months.

The Services Group is benefiting from a recent acquisition. Services rise to the black can be attributed to new contracts, increased project work, and the acquisition of an Alabama wastewater system. Margins in the Services Group have been, and will likely remain, thin in the coming years, but the wastewater addition will probably help improve the situation. The Alabama system isn't regulated by a state agency, and hence allows for some rate flexibility in the future.

These untimely shares have limited long-term appeal. Current valuations seem high, causing our projections to indicate an uninspiring total return over the coming 3 to 5 years.

Praneeth Satish *April 28, 2006*

(A) Diluted earnings. Excludes nonrecurring gains (losses): '00, (3¢); '01, (5¢); '02, 1¢; '05, (23¢). Next earnings report due early May.
(B) Dividends historically paid in late January, April, July, and October.
(C) In millions, adjusted for splits.
(D) Includes intangibles. In 2005: $35.9 million, $1.61/share.

Company's Financial Strength	B
Stock's Price Stability	80
Price Growth Persistence	90
Earnings Predictability	60

AQUA AMERICA NYSE-WTR

RECENT PRICE	25.63	P/E RATIO	34.6 (Trailing: 36.1; Median: 23.0)	RELATIVE P/E RATIO	1.80	DIV'D YLD	1.7%	VALUE LINE

TIMELINESS 4 Lowered 3/17/06

SAFETY 3 Lowered 8/1/03

TECHNICAL 3 Raised 4/28/06

BETA .80 (1.00 = Market)

High:	4.1	5.7	8.5	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8
Low:	3.3	3.9	4.4	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	25.3

Target Price Range

2009	2010	2011

2009-11 PROJECTIONS

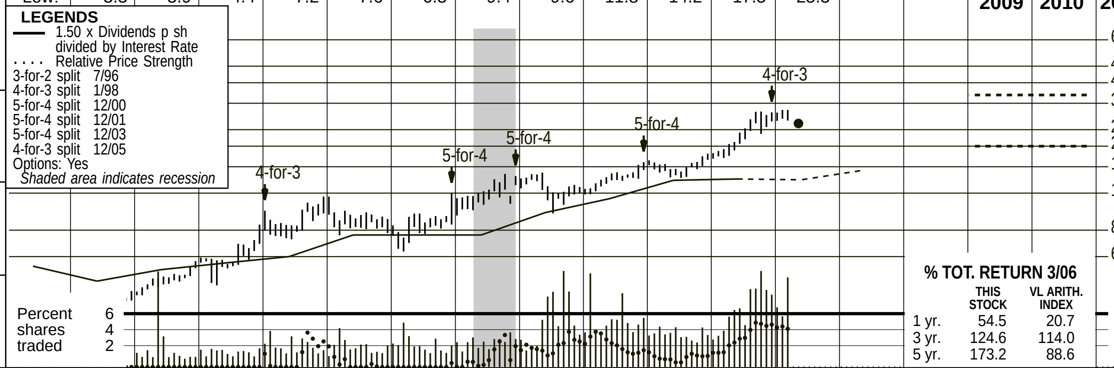
	Price	Gain	Ann'l Total Return
High	35	(+35%)	10%
Low	20	(-20%)	-4%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	1	2	3	2	1	2	2
to Sell	0	0	0	3	3	2	1	2	1

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	116	124	112
to Sell	64	73	123
Hld's(000)	36632	37964	37756



% TOT. RETURN 3/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	54.5	20.7
3 yr.	124.6	114.0
5 yr.	173.2	88.6

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
2.02	2.14	1.82	1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.05	4.40	Revenues per sh	5.80
.43	.45	.39	.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.30	1.45	"Cash Flow" per sh	1.85
.24	.25	.24	.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.77	.86	Earnings per sh A	1.20
.19	.19	.20	.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.49	Div'd Decl'd per sh B■	.66
.76	.54	.60	.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	1.90	2.15	Cap'l Spending per sh	2.60
2.10	2.07	2.09	2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.75	7.20	Book Value per sh	9.05
40.64	41.42	51.20	59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	130.00	131.00	Common Shs Outst'g C	134.00
10.2	10.8	12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	Bold figures are		Avg Ann'l P/E Ratio	23.0
.76	.69	.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.70	Value Line		Relative P/E Ratio	1.55
7.7%	7.2%	6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	estimates		Avg Ann'l Div'd Yield	2.4%

CAPITAL STRUCTURE as of 12/31/05
Total Debt $1041.5 mill. **Due in 5 Yrs** $280.0 mill.
LT Debt $878.4 mill. **LT Interest** $50.0 mill.
(Total interest coverage: 3.8x) (48% of Cap'l)

Pension Assets $117.7 mill. **Oblig.** $179.7 mill.

Pfd Stock None

Common Stock 129,205,090 shares
as of 2/17/06

MARKET CAP: $3.3 billion (Mid Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
122.5	136.2	151.0	257.3	275.5	307.3	322.0	367.2	442.0	496.8	525	575	Revenues ($mill)	775
19.8	23.2	28.8	45.0	50.7	58.5	62.7	67.3	80.0	91.2	100	115	Net Profit ($mill)	160
41.4%	40.6%	40.5%	38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.0%	39.0%	Income Tax Rate	39.0%
--	--	--	--	--	--	--	--	2.9%	2.6%	2.5%	2.5%	AFUDC % to Net Profit	2.0%
54.1%	54.4%	52.7%	52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.0%	51.0%	Long-Term Debt Ratio	51.0%
44.0%	44.8%	46.6%	46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	49.0%	49.0%	Common Equity Ratio	49.0%
401.7	427.2	496.6	782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1785	1925	Total Capital ($mill)	2475
502.9	534.5	609.8	1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2450	2635	Net Plant ($mill)	3280
6.8%	7.4%	7.6%	7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	7.0%	7.5%	Return on Total Cap'l	8.0%
10.7%	11.9%	12.3%	12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	11.5%	12.0%	Return on Shr. Equity	13.0%
11.2%	12.0%	12.4%	12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	11.5%	12.0%	Return on Com Equity	13.0%
2.8%	3.6%	4.5%	4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	5.0%	5.5%	Retained to Com Eq	6.0%
75%	70%	64%	65%	60%	59%	59%	59%	57%	56%	57%	56%	All Div'ds to Net Prof	55%

CURRENT POSITION ($MILL.)	2003	2004	12/31/05
Cash Assets	39.2	13.1	11.9
Receivables	62.3	64.5	62.7
Inventory (AvgCst)	5.8	6.9	7.8
Other	5.1	5.6	7.6
Current Assets	112.4	90.1	90.0
Accts Payable	32.3	23.5	55.5
Debt Due	135.8	135.3	163.1
Other	63.9	58.6	44.7
Current Liab.	232.0	217.4	263.3
Fix. Chg. Cov.	344%	364%	377%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.0%	8.0%	9.0%
"Cash Flow"	9.5%	9.5%	9.0%
Earnings	9.0%	8.5%	11.0%
Dividends	6.0%	6.5%	10.0%
Book Value	9.5%	11.0%	8.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	80.5	83.4	102.1	101.2	367.2
2004	99.8	106.5	120.3	115.4	442.0
2005	114.0	123.1	136.8	122.9	496.8
2006	120	130	140	135	525
2007	130	140	155	150	575

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.11	.14	.18	.14	.57
2004	.13	.14	.20	.17	.64
2005	.15	.17	.22	.17	.71
2006	.15	.17	.25	.20	.77
2007	.17	.19	.29	.21	.86

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.08	.08	.08	.084	.32
2003	.084	.084	.084	.09	.34
2004	.09	.09	.09	.098	.37
2005	.098	.098	.098	.108	.40
2006	.108				

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.5 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '05: residential, 59%; commercial, 15%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/06 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America's stock is trading near its all-time high valuation multiple. Shares of the company rose 50% in 2005, a rather unusual gain for a utilities stock, especially water utility. These stocks are historically known for their slow yet steady performance, but they have been real high flyers over the past year. Aqua is poised for healthy share-net advances this year and next, but its current stock quotation may already include these advances. We outline the company's growth prospects below to see if WTR's current valuation is sustainable.

Earnings growth in 2006 will probably be back-end loaded. Aqua has a large volume of rate cases that have recently been filed, and several more are coming. In total, the company is awaiting judgment on over $65 million of rate hikes. The figure consists of rate filings in Pennsylvania ($38.8 million), Indiana ($5.5 million), New Jersey ($4.1 million), Florida ($4.0 million), and several other states. The majority of these rate increases will likely come in the second half of 2006, so we estimate flat share-earnings comparisons during the first half of the year.

A ravenous appetite for acquisitions should fuel profit growth in the coming years. Aqua is the largest investor-owned water utility in the United States. Using its good financial position, the company is able to purchase numerous smaller businesses in the fragmented water services industry. Management recently indicated that Aqua's acquisition pipeline is robust, and it is seeing a greater number of municipalities being offered for sale. Municipalities are good acquisition targets since they are often run less efficiently than most of Aqua's other operations. This means, although cash outflows will probably be high during the early years, as the company brings the new water systems up to par, future synergistic savings should make up for the initial losses.

We do not recommend these untimely shares to investors, given their current quotation. Projected earnings growth for the coming 3- to 5-years does not seem high enough to warrant the stock's lofty valuation. Moreover, the equity's current yield is out of line with historical norms.

Praneeth Satish *April 28, 2006*

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early May. (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount). (C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	95
Earnings Predictability	100

ATTACHMENT C

INDUSTRY TIMELINESS: 93 (of 98)

The earnings performance for many Natural Gas Distribution utilities has been hurt by the warmer-than-normal temperatures during most of the winter heating season. Moreover, the higher natural gas prices resulted in conservation from customers, as well as higher levels of bad-debt expenses from individuals unable to afford higher utility bills. Companies that have been able to lower operating costs likely posted better bottom-line results than those that were unable to offset these costs. Furthermore, it should be noted that the key features of owning a gas utility stock are their safety and better-than-average dividend yields, rather than price performance or appreciation potential.

Natural Gas Distribution

The distribution operations of gas utilities are regulated by state agencies, which set allowed rates of return that these companies are permitted to earn. Gas utilities are natural monopolies since it is cheaper and more cost-effective to have one provider servicing a region than for multiple companies competing over the same area. One benefit that an investment in these companies offers is earnings stability, since utilities can file for rate adjustments should operating costs cut into profitability. In particular, those companies that have weather-adjustment clauses that protect against warmer weather and customer usage levels stand to post even more consistent earnings streams. *Northwest Natural* has a revenue decoupling mechanism, and the utility subsidiaries of *New Jersey Resources* and *South Jersey Industries* are requesting one. However, due to regulation, the allowed return on equity is typically in the 10%-12% range. In addition, regulators have been less willing to give rate increases to those companies with businesses in nonregulated operations, since those activities have no restrictions on return on equity.

Nonregulated Operations

Initially, gas utilities had exclusive rights to deliver gas and provide other services to specified regions, and were regulated by state public utility commissions. In 1992, the Federal Energy Regulatory Commission instituted Order 636, which requires pipeline operators to unbundle transportation and storage services, along with guaranteeing gas marketers access to their distribution networks. As a result, many distribution companies have entered into activities outside their core distribution operations, such as retail energy marketing, energy trading, and oil and gas exploration and production. In fact, most companies in this industry have some portion of their earnings coming from nonregulated operations, and are looking to boost their percentage of earnings from this segment in the coming years. At *South Jersey*, nonregulated segment earnings advanced 22%, to $14 million, from the year-ago period in the December quarter. Moreover, its Marina Energy unit should contribute meaningfully to profits in future quarters, thanks to the thermal energy plant expansion under way at the Borgata Hotel Casino & Spa.

Acquisition Activity

Southern Union has completed the acquisition of Sid Richardson Energy, for $1.6 billion. To fund this purchase, the company will sell its PG Energy assets for $580 million, and Rhode Island gas utility assets for $575 million, less assumed debt of $77 million. Sid Richardson, which is a leading provider of gas gathering and processing services in the southeastern New Mexico and west Texas areas of the Permian Basin, should help the company's nonregulated segment earnings.

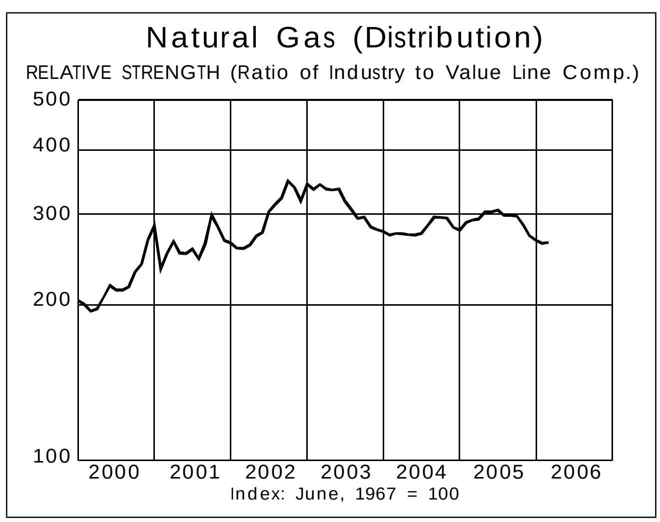
Investment Advice

This industry caters to risk-averse investors who are primarily concerned with income. It is also noteworthy to mention that some companies in this sector are expanding into nonregulated activities. This boosts total-return potential for these stocks, but comes with added risks to the investor. When evaluating companies, investors should consider what proportion of earnings is derived from nonregulated operations. Also, as companies expand into these activities, their boards may be less willing to increase dividends, instead using these funds to finance capital expenditures. As always, investors should consider a company's balance between utility and nonutility activities before committing funds.

Evan I. Blatter

Composite Statistics: Natural Gas (Distribution)

2002	2003	2004	2005	2006	2007		09-11
22947	29981	33220	***35000***	***37950***	***39950***	Revenues ($mill)	***43000***
1231.5	1395.3	1517.2	***1700***	***1850***	***1980***	Net Profit ($mill)	***2100***
35.3%	37.4%	35.7%	***36.0%***	***36.0%***	***36.0%***	Income Tax Rate	***36.0%***
5.4%	4.7%	4.6%	***4.8%***	***4.9%***	***5.0%***	Net Profit Margin	***4.9%***
57.8%	55.9%	53.2%	***53.0%***	***53.0%***	***52.0%***	Long-Term Debt Ratio	***52.0%***
41.4%	43.7%	45.7%	***45.0%***	***45.0%***	***46.0%***	Common Equity Ratio	***46.0%***
24907	28436	31268	***33500***	***35400***	***36750***	Total Capital ($mill)	***40000***
25590	31732	32053	***32400***	***34000***	***35150***	Net Plant ($mill)	***41000***
6.6%	6.4%	6.4%	***7.0%***	***7.0%***	***7.0%***	Return on Total Cap'l	***7.0%***
11.7%	11.1%	10.4%	***12.0%***	***12.0%***	***12.0%***	Return on Shr. Equity	***12.0%***
11.8%	11.2%	10.5%	***12.0%***	***12.0%***	***12.0%***	Return on Com Equity	***12.0%***
3.9%	4.1%	4.0%	***5.5%***	***5.5%***	***5.5%***	Retained to Com Eq	***5.5%***
68%	64%	63%	***62%***	***61%***	***60%***	All Div'ds to Net Prof	***60%8***
14.8	14.1	15.6		***Bold figures are Value Line estimates***		Avg Ann'l P/E Ratio	***13.0***
.81	.80	.82				Relative P/E Ratio	***.85***
4.5%	4.5%	4.0%				Avg Ann'l Div'd Yield	***4.6%***
281%	314%	308%	***310%***	***315%***	***330%***	Fixed Charge Coverage	***375%***



AGL RESOURCES NYSE-ATG

RECENT PRICE	35.08	P/E RATIO	13.0 (Trailing: 14.1, Median: 14.0)	RELATIVE P/E RATIO	0.70	DIV'D YLD	4.3%	VALUE LINE

TIMELINESS 3 Raised 2/3/06

SAFETY 2 New 7/27/90

TECHNICAL 3 Raised 3/3/06

BETA .90 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
High:	20.0	22.0	21.6	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	36.5
Low:	14.9	17.1	17.8	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4

Target Price Range

2009	2010	2011

2009-11 PROJECTIONS

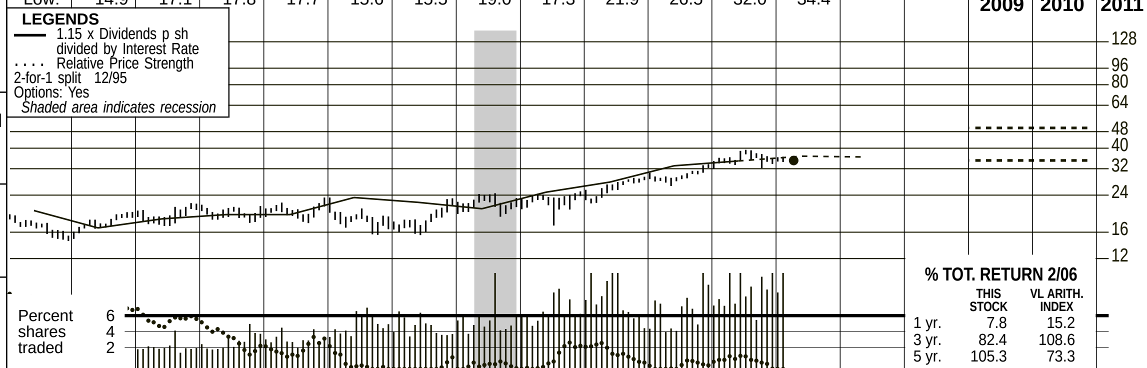
	Price	Gain	Ann'l Total Return
High	50	(+45%)	13%
Low	35	(Nil)	5%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	1	0	0	0	0
Options	1	2	1	3	3	2	1	2	1
to Sell	1	1	1	3	3	2	1	1	1

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	106	106	109
to Sell	82	81	88
Hld's(000)	49216	49487	49186



% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	7.8	15.2
3 yr.	82.4	108.6
5 yr.	105.3	73.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
22.58	20.26	20.43	22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	*34.05*	*34.95*	Revenues per sh A	*38.45*
2.04	2.07	2.31	2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	*4.30*	*4.40*	"Cash Flow" per sh	*4.80*
1.01	1.04	1.13	1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	*2.55*	*2.60*	Earnings per sh A B	*2.90*
.98	1.02	1.03	1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	*1.50*	*1.58*	Div'ds Decl'd per sh C■	*1.75*
2.73	2.95	2.74	2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	*2.85*	*3.10*	Cap'l Spending per sh	*2.25*
8.97	9.42	9.70	9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	*20.30*	*21.35*	Book Value per sh D	*24.75*
44.32	47.57	48.69	49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	*77.80*	*77.80*	Common Shs Outst'g E	*78.00*
14.2	15.3	15.5	17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
1.05	.98	.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	*Value Line*		Relative P/E Ratio	*1.00*
6.8%	6.4%	5.9%	5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	*estimates*		Avg Ann'l Div'd Yield	*4.0%*
						1220.2	1287.6	1338.6	1068.6	607.4	1049.3	868.9	983.7	1832.0	2718.0	*2650*	*2720*	Revenues ($mill) A	*3000*
						75.6	76.6	80.6	52.1	71.1	82.3	103.0	132.4	153.0	193.0	*200*	*205*	Net Profit ($mill)	*230*
						38.6%	37.9%	32.5%	33.1%	34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	*38.0%*	*38.5%*	Income Tax Rate	*38.5%*
						6.2%	5.9%	6.0%	4.9%	11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	*7.5%*	*7.5%*	Net Profit Margin	*7.6%*
						46.2%	48.7%	47.5%	45.3%	45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	*50.5%*	*49.5%*	Long-Term Debt Ratio	*48.0%*
						48.9%	45.9%	47.1%	49.2%	48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	*49.5%*	*50.5%*	Common Equity Ratio	*52.0%*
						1201.3	1356.4	1388.4	1345.8	1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	*3190*	*3270*	Total Capital ($mill)	*3715*
						1415.4	1496.6	1534.0	1598.9	1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	*3380*	*3500*	Net Plant ($mill)	*3850*
						8.0%	7.3%	7.6%	5.7%	7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	*8.0%*	*8.0%*	Return on Total Cap'l	*8.0%*
						11.7%	11.0%	11.1%	7.1%	10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	*12.5%*	*12.0%*	Return on Shr. Equity	*12.0%*
						12.1%	11.3%	12.3%	7.9%	11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	*12.5%*	*12.0%*	Return on Com Equity	*12.0%*
						3.8%	3.2%	4.4%	NMF	3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	*5.5%*	*5.0%*	Retained to Com Eq	*5.0%*
						71%	74%	64%	101%	72%	65%	52%	53%	49%	52%	*59%*	*60%*	All Div'ds to Net Prof	*60%*

CAPITAL STRUCTURE as of 12/31/05
Total Debt 2137.0 mill. **Due in 5 Yrs** 526.0 mill.
LT Debt $1615.0 mill. LT Interest $100.0 mill.

(Total interest coverage: 3.8x)
Leases, Uncapitalized Annual rentals $27.0 mill.

Pension Assets-12/05 $371.0 mill. **Oblig.** $464.0 mill.

Pfd Stock None
Common Stock 77,849,574 shs. as of 1/31/06

MARKET CAP: $2.7 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2003	2004	12/31/05
Cash Assets	16.5	49.0	30.0
Other	730.8	1408.0	2002.0
Current Assets	747.3	1457.0	2032.0
Accts Payable	73.7	207.0	264.0
Debt Due	77.0	334.0	522.0
Other	903.7	936.0	1153.0
Current Liab.	1054.4	1477.0	1939.0
Fix. Chg. Cov.	357%	510%	442%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	1.0%	7.0%	*7.5%*
"Cash Flow"	5.0%	7.0%	*4.5%*
Earnings	6.5%	13.5%	*4.0%*
Dividends	1.5%	2.0%	*6.5%*
Book Value	5.5%	8.5%	*6.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	352.5	186.6	166.3	278.3	983.7
2004	651.0	294.0	262.0	625.0	1832.0
2005	908.0	430.0	387.0	993.0	2718.0
2006	*960*	*455*	*420*	*815*	*2650*
2007	*940*	*480*	*450*	*850*	*2720*

Cal-endar	EARNINGS PER SHARE A B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.98	.29	.27	.54	2.08
2004	1.00	.33	.31	.64	2.28
2005	1.14	.30	.19	.85	2.48
2006	*1.24*	*.34*	*.27*	*.70*	*2.55*
2007	*1.25*	*.35*	*.28*	*.72*	*2.60*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.27	.27	.27	.27	1.08
2003	.27	.28	.28	.28	1.11
2004	.28	.29	.29	.29	1.15
2005	.31	.31	.31	.37	1.30
2006	.37				

BUSINESS: AGL Resources, Inc. is a public utility holding company. Its distribution subsidiaries are Atlanta Gas Light, Chattanooga Gas, and Virginia Natural Gas. The utilities have more than 2.2 million customers in Georgia, primarily Atlanta, Virginia, and in southern Tennessee. Also engaged in nonregulated natural gas marketing and other, allied services. Also wholesales and retails propane. Nonregulated subsidiaries: Georgia Natural Gas Services markets natural gas at retail. Acquired Virginia Natural Gas, 10/00. Sold Utilipro, 3/01. Off./dir. own less than 1.0% of common stock (3/05 Proxy). President & Chief Executive Officer: John W. Somerhalder II. Inc.: GA. Address: 10 Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

We look for respectable earnings gains from AGL Resources in 2006 and 2007. This follows last year's 9% increase in earnings, where each segment contributed meaningfully toward results. Management has upped its 2006 forecast by $0.10, due to a decline in the price of gas during the fourth quarter of 2005. As a result, reported hedge losses are now expected to be recovered in 2006. In addition, the NUI acquisition, which occurred in November of 2004, has proven to be a strong contributor toward results. All major corporate functions at NUI have been integrated into the AGL model. Since the purchase, the company has been able to lower NUI's cost per meter from $2,766 to $1,647. Also, the number of customers per employee has risen to 943 from 456, highlighting many of the improved efficiencies in place.

AGL Resources' Virginia Natural Gas (VNG) subsidiary is involved in a rate case. The Virginia Commission has issued a report stating that VNG is currently exceeding its allowable rate of return by about $10 million-$15 million. In July, VNG filed a performance-based rate plan with the commission that would freeze rates at the 1996 levels for an additional five years. Hearings on this matter are under way, though, it seems that VNG will likely experience some reduction in rates.

The Jefferson Island Storage & Hub expansion should result in increased profits over the 2009–2011 period. The segment, which was acquired in October of 2004, currently has a storage capacity of 7.2 billion cubic feet (Bcf). AGL resources will build two additional caverns, which will more than double storage capacity from the current levels. The third cavern is scheduled to be completed in 2009, with the fourth coming on line in 2011.

Income-oriented investors may find this conservative stock appealing. Of note, the board recently hired John W. Somerhalder II, former president of El Paso Pipeline Group, as AGL Resources' president, CEO, and newest member of the board. In addition, the board announced a plan to repurchase up to eight million shares of common stock. Over the pull to 2009–2011, we look for modest dividend hikes to support a yield of about 4%.

Evan I. Blatter *March 17, 2006*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, d$0.83; '99, $0.39; '00, $0.13; '01, $0.13; '03, d$0.07. Next earnings report due late April.
(C) Dividends historically paid early March, June, Sept, and Dec. ■ Div'd reinvest. plan available.
(D) Includes intangibles. In 2005: $422 million, $5.43/share.
(E) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	65
Earnings Predictability	70

CASCADE NAT'L GAS NYSE-CGC

RECENT PRICE	19.03	P/E RATIO	19.0 (Trailing: 20.5, Median: 18.0)	RELATIVE P/E RATIO	1.03	DIV'D YLD	5.0%	VALUE LINE

TIMELINESS 4 Lowered 3/17/06

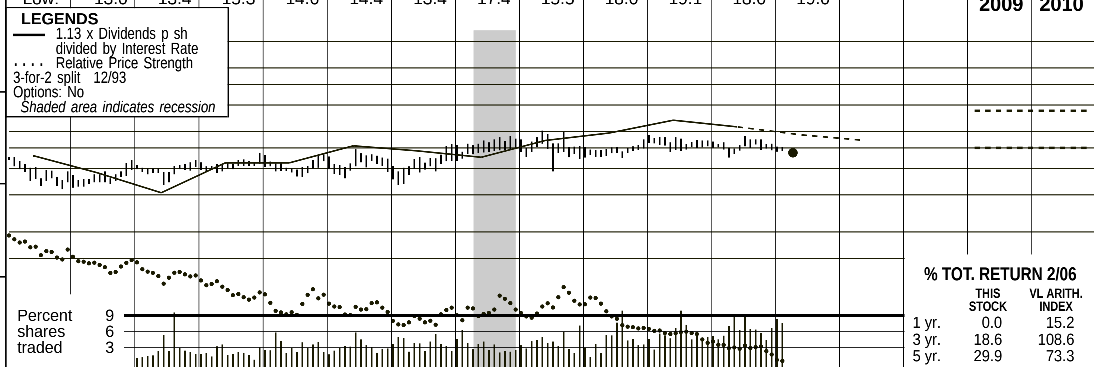
SAFETY 3 New 7/27/90

TECHNICAL 3 Raised 2/10/06

BETA .80 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
High:	17.5	17.5	19.0	18.7	19.8	20.9	22.8	24.2	22.0	23.0	22.8	20.3
Low:	13.0	13.4	15.3	14.6	14.4	13.4	17.4	15.5	18.0	19.1	18.0	19.0

Target Price Range
2009 | 2010 | 2011



% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	0.0	15.2
3 yr.	18.6	108.6
5 yr.	29.9	73.3

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+60%)	*16%*
Low	20	(+5%)	*6%*

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	2	1	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	35	44	38
to Sell	37	28	34
Hld's(000)	4474	4775	4695

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
24.45	23.27	20.03	21.88	21.59	19.98	11.84	17.85	17.17	18.89	21.90	30.40	29.06	27.20	28.23	28.61	*44.80*	*49.55*	Revenues per sh A	*66.40*
2.36	2.29	1.66	2.04	1.71	2.07	1.22	1.92	2.06	2.40	2.60	2.72	2.48	2.25	2.63	2.32	*2.55*	*2.75*	"Cash Flow" per sh	*4.20*
1.26	1.14	.63	1.05	.60	.80	.39	.93	.84	1.24	1.39	1.47	1.13	.87	1.19	.82	*1.00*	*1.15*	Earnings per sh AB	*1.55*
.87	.90	.93	.94	.96	.96	.72	.96	.96	.96	.96	.96	.96	.96	.96	.96	*.96*	*.96*	Div'ds Decl'd per sh C■	*.98*
2.50	2.97	4.64	3.85	3.06	4.12	2.42	2.66	2.32	1.81	1.65	2.16	1.91	2.56	3.50	2.53	*1.90*	*2.20*	Cap'l Spending per sh	*4.00*
8.33	8.63	9.09	9.96	9.81	9.76	10.09	10.16	10.07	10.36	10.79	11.01	10.34	10.11	10.52	10.39	*12.35*	*14.30*	Book Value per sh D	*18.60*
6.56	6.63	7.61	8.57	8.91	9.14	10.79	10.97	11.05	11.05	11.05	11.05	11.05	11.13	11.27	11.41	*11.50*	*11.50*	Common Shs Outst'g E	*12.50*
8.9	12.2	23.7	16.6	25.7	18.2	40.0	17.6	19.4	13.7	11.7	13.4	18.2	22.0	17.5	25.1	*Bold figures are*		Avg Ann'l P/E Ratio	*16.5*
.66	.78	1.44	.98	1.69	1.22	2.51	1.01	1.01	.78	.76	.69	.99	1.25	.92	1.34	*Value Line*		Relative P/E Ratio	*1.10*
7.8%	6.4%	6.2%	5.4%	6.2%	6.6%	4.6%	5.9%	5.9%	5.7%	5.9%	4.9%	4.7%	5.0%	4.6%	4.7%	*estimates*		Avg Ann'l Div'd Yield	*3.9%*
						127.7	195.8	189.7	208.6	241.9	335.8	321.0	302.8	318.1	326.5	*515*	*570*	Revenues ($mill) A	*830*
						4.2	10.6	9.8	14.2	15.4	16.2	12.5	9.7	13.3	9.2	*11.5*	*13.2*	Net Profit ($mill)	*19.5*
						34.8%	37.1%	37.4%	36.5%	37.1%	35.0%	34.9%	34.2%	36.2%	37.9%	*37.0%*	*37.0%*	Income Tax Rate	*37.0%*
						3.3%	5.4%	5.2%	6.8%	6.4%	4.8%	3.9%	3.2%	4.2%	2.8%	*2.2%*	*2.3%*	Net Profit Margin	*2.3%*
						46.8%	50.6%	48.4%	50.9%	51.2%	50.7%	59.1%	55.9%	52.1%	59.4%	*57.0%*	*55.0%*	Long-Term Debt Ratio	*51.0%*
						50.0%	46.5%	48.7%	46.6%	48.8%	49.3%	40.9%	44.1%	47.9%	40.6%	*43.0%*	*45.0%*	Common Equity Ratio	*49.0%*
						217.8	239.4	228.5	245.6	244.2	246.6	279.1	255.5	247.4	292.5	*330*	*365*	Total Capital ($mill)	*475*
						255.7	265.2	276.6	282.3	284.8	294.2	299.6	312.3	334.6	342.5	*350*	*365*	Net Plant ($mill)	*470*
						3.4%	6.2%	6.1%	7.5%	8.1%	8.5%	6.4%	6.0%	7.7%	5.0%	*5.0%*	*5.5%*	Return on Total Cap'l	*5.5%*
						3.6%	9.0%	8.3%	11.7%	12.9%	13.3%	10.9%	8.6%	11.2%	7.8%	*8.0%*	*8.0%*	Return on Shr. Equity	*8.5%*
						3.5%	9.1%	8.3%	12.0%	12.9%	13.3%	10.9%	8.6%	11.2%	7.8%	*8.0%*	*8.0%*	Return on Com Equity	*8.5%*
						NMF	.7%	NMF	2.7%	4.0%	4.6%	1.7%	NMF	2.1%	NMF	*.5%*	*1.5%*	Retained to Com Eq	*3.0%*
						NMF	93%	108%	78%	69%	65%	85%	110%	81%	118%	*96%*	*84%*	All Div'ds to Net Prof	*63%*

CAPITAL STRUCTURE as of 12/31/05

Total Debt $192.6 mill. **Due in 5 Yrs** $20.5 mill.
LT Debt $165.7 mill. **LT Interest** $10.0 mill.
(LT interest earned: 2.3x; total interest coverage: 2.3x)

Pension Assets-9/05 $58.5 mill. **Oblig.** $71.7 mill.

Pfd Stock None

Common Stock 11,442,516 shs.
as of 1/31/06

MARKET CAP: $225 million (Small Cap)

CURRENT POSITION A ($MILL.)	2004	2005	12/31/05
Cash Assets	.5	1.1	2.3
Other	65.9	141.0	163.6
Current Assets	66.4	142.1	165.9
Accts Payable	12.9	17.8	63.1
Debt Due	47.5	12.5	26.9
Other	38.6	111.9	77.1
Current Liab.	99.0	142.2	167.1
Fix. Chg. Cov.	269%	225%	250%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	3.0%	7.5%	*15.5%*
"Cash Flow"	2.0%	.5%	*10.0%*
Earnings	1.5%	-3.5%	*8.5%*
Dividends	- -	- -	*.5%*
Book Value	.5%	- -	*10.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	100.5	109.3	53.8	39.2	302.8
2004	104.9	119.4	52.1	41.7	318.1
2005	104.6	117.7	56.3	47.9	326.5
2006	158.6	*167*	*100*	*89.4*	*515*
2007	*170*	*177*	*115*	*108*	*570*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.60	.67	d.18	d.22	.87
2004	.72	.79	d.05	d.26	1.19
2005	.59	.65	d.10	d.32	.82
2006	.70	*.70*	*d.12*	*d.28*	*1.00*
2007	*.75*	*.73*	*d.12*	*d.21*	*1.15*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.24	.24	.24	.24	.96
2003	.24	.24	.24	.24	.96
2004	.24	.24	.24	.24	.96
2005	.24	.24	.24	.24	.96
2006	.24				

BUSINESS: Cascade Natural Gas Corporation distributes natural gas to roughly 227,000 customers in Washington and Oregon. In 2005, total throughput was 108.2 billion cu. ft. Core customers: residential, commercial, firm industrial, interruptible (71% of oper. margin, 24% of gas deliveries); non-core: industrial, transportation service (29%, 76%). Serves pulp & paper, plywood, chem. fertilizers, oil refining, & food process. inds. Main connecting pipeline: Northwest Pipeline Corp. '05 deprec. rate: 2.9%. Est'd plant age: 12 yrs. Has around 375 employees. Officers and directors own 1.8% of com. (12/05 proxy). President and Chief Executive Officer: David W. Stevens. Inc.: WA. Address: 222 Fairview Ave. North, Seattle, WA 98109. Tel.: 206-624-3900. Internet: www.cngc.com.

Share net for Cascade Natural Gas bounced back sharply for the first quarter of fiscal 2006 (ends September 30th) versus the year-ago tally. Consumption for the core residential and commercial business was boosted by cooler weather (especially during December), plus an expanded customer base. Furthermore, the performance of the electric generation segment, a key component of the industrial unit, also benefited from lower temperatures, as well as a settlement involving an inactive power plant. Finally, there was a decline in the company's labor expenses (attributable partly to better management of overtime) and employee benefits costs (reflecting the outsourcing of retiree medical obligations to an insurance firm).

At this juncture, indications point to a jump in the bottom line of about 22%, to $1.00 a share, this year. Assuming a continuation of positive business trends, share net stands to climb another 15%, to $1.15, in 2007.

A request for a general rate hike was filed with the Washington Utilities and Transportation Commission. (The last time Cascade had such a filing was in 1995.) The proposed new rates would generate additional annual revenues of $11.7 million. We note that our presentation will reflect this measure once approval is granted, which is hard to determine at this juncture.

Solid results appear to be in store for the company over the next three to five years. A generally favorable economic environment in the Pacific Northwest enabled the pace of new home and commercial construction to be steady in the past. We expect more of the same, which augurs well for Cascade's account hookups. Other positives include an automated meter reading system and a consolidated call center for customers. That said, share earnings may expand roughly 10% annually out to 2009-2011.

The equity offers a healthy dividend yield. But further increases in the distribution may be moderate, given future capital expenditures for the company's expanding customer base. Meanwhile, these shares are ranked 4 (Below Average) for Timeliness.

Frederick L. Harris, III *March 17, 2006*

(A) Cal. yr. thru. 12/95. Changed to 9/30 fiscal yr. in '96. (B) Primary egs. thru. '97, then diluted. Excl. nonrec. gains (losses): '91, 19¢; '93, 3¢; '96, (11¢); '98, (2¢); '99, (1¢); '01, 9¢; '02, (16¢); '03, (5¢). '04 egs. don't add to total due to rounding. Next egs. rpt. due late April. (C) Dividends historically paid in the middle of Feb., May, Aug., Nov. ■Div'd reinvest. plan avail. (D) Incl. deferred charges. In '05: $68.0 mill., $5.96/sh. (E) In mill., adj. for stk. split.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	55
Earnings Predictability	70

LACLEDE GROUP NYSE-LG

RECENT PRICE	32.37	P/E RATIO	13.8 (Trailing: 13.8, Median: 15.0)	RELATIVE P/E RATIO	0.75	DIV'D YLD	4.4%	VALUE LINE

TIMELINESS 3 Raised 2/10/06
SAFETY 2 Raised 6/20/03
TECHNICAL 3 Lowered 11/18/05
BETA .80 (1.00 = Market)

High:	23.1	24.9	28.6	27.9	27.0	24.8	25.5	25.0	30.0	32.5	34.3	34.7
Low:	18.4	20.0	20.3	22.4	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1

2009-11 PROJECTIONS

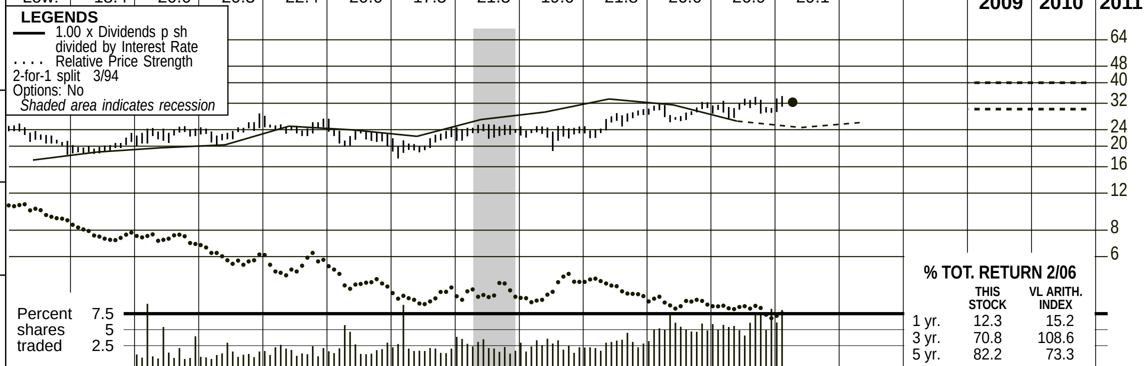
	Price	Gain	Ann'l Total Return
High	40	(+25%)	10%
Low	30	(-5%)	3%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	3	0	0	0
to Sell	0	0	0	0	0	3	0	0	0

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	48	51	50
to Sell	45	35	37
Hld's(000)	6362	6774	8521



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
30.21	28.10	26.83	32.33	33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	*91.65*	*99.05*	Revenues per sh	*125.00*
2.13	2.37	2.32	2.81	2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	*3.55*	*3.70*	"Cash Flow" per sh	*4.40*
1.08	1.28	1.17	1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	*2.35*	*2.40*	Earnings per sh A B	*2.80*
1.18	1.20	1.20	1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	*1.40*	*1.42*	Div'ds Decl'd per sh C■	*1.50*
1.87	2.46	2.87	2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	*3.15*	*3.40*	Cap'l Spending per sh	*4.40*
11.75	11.83	11.79	12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	*18.25*	*18.75*	Book Value per sh D	*22.30*
15.59	15.59	15.59	15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	*21.50*	*21.50*	Common Shs Outst'g E	*24.00*
14.6	12.5	15.8	13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	*Bold figures are*		Avg Ann'l P/E Ratio	*12.5*
1.08	.80	.96	.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	*Value Line*		Relative P/E Ratio	*.85*
7.5%	7.5%	6.5%	5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	*estimates*		Avg Ann'l Div'd Yield	*4.3%*

CAPITAL STRUCTURE as of 12/31/05
Total Debt $650.0 mill. **Due in 5 Yrs** $175.0 mill.
LT Debt $340.5 mill. **LT Interest** $25.0 mill.
(Total interest coverage: 3.0x)

Leases, Uncapitalized Annual rentals $1.7 mill.
Pension Assets-9/05 $272.8 mill. **Oblig.** $327.2 mill.
Pfd Stock $.9 mill. **Pfd Div'd** $.05 mill.
Common Stock 21,282,283 shs.
as of 1/27/06

MARKET CAP: $700 million (Small Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
544.8	602.8	547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	*1970*	*2130*	Revenues ($mill) A	*3000*
32.8	32.5	27.9	26.9	26.0	30.5	22.4	34.6	36.1	40.1	*50.5*	*51.5*	Net Profit ($mill)	*70.0*
35.9%	36.1%	35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	*34.0%*	*34.0%*	Income Tax Rate	*35.0%*
6.0%	5.4%	5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	*2.6%*	*2.4%*	Net Profit Margin	*2.3%*
42.5%	38.0%	40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	*48.0%*	*48.0%*	Long-Term Debt Ratio	*49.0%*
57.1%	61.6%	58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	*52.0%*	*52.0%*	Common Equity Ratio	*51.0%*
422.2	406.8	438.0	488.6	519.2	574.1	546.6	605.0	737.4	707.9	*755*	*775*	Total Capital ($mill)	*1050*
452.2	467.6	490.6	519.4	575.4	602.5	594.4	621.2	646.9	679.5	*710*	*745*	Net Plant ($mill)	*900*
9.4%	9.7%	8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.7%	*8.0%*	*8.0%*	Return on Total Cap'l	*8.0%*
13.5%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	*13.0%*	*13.0%*	Return on Shr. Equity	*13.0%*
13.6%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	*13.0%*	*13.0%*	Return on Com Equity	*13.0%*
4.5%	3.9%	1.8%	1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	*5.0%*	*5.0%*	Retained to Com Eq	*6.5%*
67%	70%	83%	89%	98%	83%	113%	74%	73%	72%	*60%*	*59%*	All Div'ds to Net Prof	*51%*

CURRENT POSITION ($MILL.)	2004	2005	12/31/05
Cash Assets	13.9	6.0	23.8
Other	323.7	418.1	611.4
Current Assets	337.6	424.1	635.2
Accts Payable	68.4	138.4	227.8
Debt Due	96.5	110.7	309.5
Other	97.7	116.5	93.7
Current Liab.	262.6	365.6	631.0
Fix. Chg. Cov.	279%	293%	285%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.5%	17.0%	*12.0%*
"Cash Flow"	1.0%	1.5%	*7.0%*
Earnings	2.5%	4.5%	*7.0%*
Dividends	1.0%	.5%	*2.0%*
Book Value	3.0%	2.5%	*5.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.)A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	280.1	422.2	186.6	161.4	1050.3
2004	332.6	475.0	245.1	197.6	1250.3
2005	442.5	576.5	311.3	266.7	1597.0
2006	689.2	*685*	*320*	*275.8*	*1970*
2007	*700*	*700*	*400*	*330*	*2130*

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.80	1.14	.11	d.21	1.82
2004	.87	1.12	.19	d.28	1.82
2005	.79	1.06	.29	d.24	1.90
2006	1.23	*1.10*	*.30*	*d.28*	*2.35*
2007	*1.21*	*1.13*	*.30*	*d.24*	*2.40*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.335	.335	.335	.335	1.34
2003	.335	.335	.335	.335	1.34
2004	.335	.34	.34	.34	1.36
2005	.34	.345	.345	.345	1.38
2006	.345	.355			

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 8 other counties. Has more than 630,000 customers. Purchased SM&P for $43 million (1/02). Therms sold and transported in fiscal '05: 1.12 mill. Revenue mix for regulated operations: residential, 60%; commercial and industrial, 23%; transportation, 2%; other, 15%. Has about 3,815 employees; 6,270 common stockholders. Officers and directors own about 6.0% of common shares (1/06 Proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.lacledegas.com.

Laclede Group's share net rose considerably for the first quarter of fiscal 2006 (year ends September 30th). Laclede Gas Company, the core subsidiary, was aided by higher sales to entities that were outside the service territory, a general rate increase (effective since last October), and colder temperatures within the system. But the advance was limited, to a certain degree, by heightened operation and maintenance expenses. Meanwhile, margins for the non-regulated gas marketing segment, Laclede Energy Resources, widened nicely because of regional supply/demand imbalances caused by the recent hurricanes, plus a healthy flow of interstate pipeline wholesale transactions. Lastly, SM&P Utility Resources, an underground facility locating firm, benefited from the attainment of business in both new and existing markets, as well as profit-enhancement initiatives (which included new training methods and quality assurance programs).

At this juncture, the bottom line appears set to jump nearly 24%, to $2.35 a share, in fiscal 2006. Share net may flatten out next year, though, due to the difficult comparison.

Still, we do not envision any spectacular performances for the company out to 2009-2011. It appears that internal growth for Laclede Gas will remain modest, at best, since the customer base in the greater St. Louis area has been expanding less than 1% annually. As such, any substantial gains will have to come from the unregulated units or from major acquisitions, scenarios we don't see happening anytime soon. Consequently, annual bottom-line increases could only be in the mid-single-digit range over the 3- to 5-year period.

The stock offers an appealing dividend, which is amply secured by earnings. But hikes in the payout will likely be minimal, given that Laclede's gas service area is in a mature stage.

Long-term total-return potential is unexciting. That's because these shares are currently trading within our 2009-2011 Target Price Range, and we are assuming moderate dividend growth. Meanwhile, the equity is neutrally ranked for Timeliness.

Frederick L. Harris, III *March 17, 2006*

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Next earnings report due late April.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Incl. deferred charges. In '05: $203.8 mill., $9.63/sh.
(E) In millions. Adjusted for stock split.
(F) Qtly. egs. may not sum due to change in shares outstanding.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	45
Earnings Predictability	65

N.W. NAT'L GAS NYSE-NWN

RECENT PRICE 33.58 | P/E RATIO 15.7 (Trailing: 16.1 / Median: 14.0) | RELATIVE P/E RATIO 0.85 | DIV'D YLD 4.1% | VALUE LINE

High:	22.8	25.9	31.4	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6	36.6	
Low:	18.3	20.8	23.0	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	

Target Price Range: 2009 | 2010 | 2011

TIMELINESS 4 Lowered 9/16/05
SAFETY 1 Raised 3/18/05
TECHNICAL 3 Raised 3/10/06
BETA .70 (1.00 = Market)

2009-11 PROJECTIONS

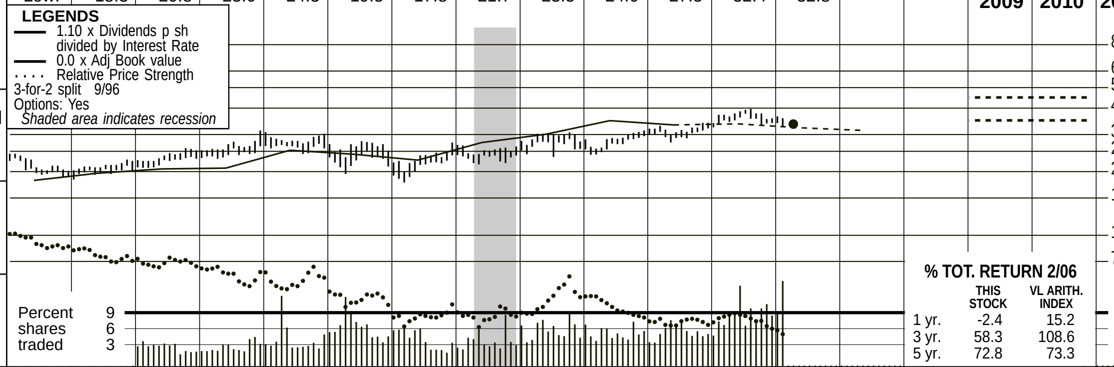
	Price	Gain	Ann'l Total Return
High	45	(+35%)	11%
Low	35	(+5%)	5%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	4	0	0	1	0	0	1
to Sell	0	0	3	0	0	0	0	0	1

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	77	65	59
to Sell	38	49	54
Hld's(000)	13459	13457	12922



% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	-2.4	15.2
3 yr.	58.3	108.6
5 yr.	72.8	73.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
17.02	16.74	14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	*39.65*	*42.25*	Revenues per sh	*51.80*
3.22	2.57	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	*4.60*	*4.60*	"Cash Flow" per sh	*5.10*
1.62	.67	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	*2.25*	*2.40*	Earnings per sh A	*2.85*
1.10	1.13	1.15	1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	*1.38*	*1.42*	Div'ds Decl'd per sh B■	*1.70*
3.85	3.58	3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.22	*3.60*	*3.60*	Cap'l Spending per sh	*3.60*
12.61	12.23	12.41	13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.27	*21.95*	*22.90*	Book Value per sh	*25.55*
17.41	17.68	19.46	19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	*27.75*	*27.80*	Common Shs Outst'g C	*28.00*
10.2	28.1	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	Bold figures are		Avg Ann'l P/E Ratio	*14.0*
.76	1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.90	Value Line		Relative P/E Ratio	*.95*
6.7%	5.9%	5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	estimates		Avg Ann'l Div'd Yield	*4.3%*

CAPITAL STRUCTURE as of 12/31/05
Total Debt $656.2 mill. **Due in 5 Yrs** $78.0 mill.
LT Debt $521.5 mill. **LT Interest** $31.0 mill.

(Total interest coverage: 3.5x)

Pension Assets-12/05 $218.6 mill.
Oblig. $267.9 mill.
Pfd Stock None

Common Stock 27,582,296 shs.
as of 2/23/06
MARKET CAP $925 million (Small Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
380.3	361.8	416.7	455.8	532.1	650.3	641.4	611.3	707.6	910.5	*1100*	*1175*	Revenues ($mill)	*1450*
46.8	43.1	27.3	44.9	47.8	50.2	43.8	46.0	50.6	58.1	*62.5*	*66.5*	Net Profit ($mill)	*77.0*
36.9%	32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	*36.0%*	*36.0%*	Income Tax Rate	*36.0%*
12.3%	11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	*5.7%*	*5.7%*	Net Profit Margin	*5.3%*
41.4%	46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	*47.0%*	*47.0%*	Long-Term Debt Ratio	*47%*
52.8%	49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	*53.0%*	*53.0%*	Common Equity Ratio	*53%*
657.4	748.0	815.6	861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	*1150*	*1200*	Total Capital ($mill)	*1350*
745.3	827.5	894.7	895.9	934.0	965.0	995.6	1205.9	1318.4	1338.6	*1375*	*1400*	Net Plant ($mill)	*1500*
8.9%	7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	7.0%	*7.0%*	*7.0%*	Return on Total Cap'l	*7.0%*
12.1%	10.7%	6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	10.0%	*10.0%*	*10.5%*	Return on Shr. Equity	*10.5%*
12.7%	11.0%	6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	10.0%	*10.0%*	*10.5%*	Return on Com Equity	*10.5%*
5.0%	3.6%	NMF	2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	*3.7%*	*3.7%*	Retained to Com Eq	*3.8%*
63%	70%	118%	74%	70%	67%	79%	72%	69%	63%	*61%*	*59%*	All Div'ds to Net Prof	*60%*

CURRENT POSITION ($MILL.)

	2003	2004	12/31/05
Cash Assets	4.7	5.2	7.1
Other	194.8	231.9	316.6
Current Assets	199.5	237.1	323.7
Accts Payable	86.0	102.5	135.3
Debt Due	85.2	117.5	134.7
Other	43.2	47.3	56.6
Current Liab.	214.4	267.3	326.6
Fx. Chg. Cov.	280%	316%	340%

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '09-'11
Revenues	4.0%	8.0%	*11.00*
"Cash Flow"	1.0%	1.5%	*4.5%*
Earnings	2.5%	3.0%	*7.0%*
Dividends	1.0%	1.0%	*4.0%*
Book Value	4.0%	3.5%	*3.5%*

QUARTERLY REVENUES ($ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	206.5	117.5	69.5	217.8	611.3
2004	254.5	109.7	81.4	262.0	707.6
2005	308.7	153.7	106.7	341.4	910.5
2006	*375*	*200*	*150*	*375*	*1100*
2007	*400*	*215*	*160*	*400*	*1175*

EARNINGS PER SHARE A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	1.01	.17	d.25	.83	1.76
2004	1.24	d.03	d.30	.95	1.86
2005	1.43	.04	d.31	.93	2.11
2006	*1.50*	*.02*	*d.31*	*1.04*	*2.25*
2007	*1.55*	*.05*	*d.30*	*1.10*	*2.40*

QUARTERLY DIVIDENDS PAID B ■

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.315	.315	.315	.315	1.26
2003	.315	.315	.315	.325	1.27
2004	.325	.325	.325	.325	1.30
2005	.325	.325	.325	.345	1.32
2006	.345				

BUSINESS: Northwest Natural Gas Co. (doing business as NW Natural) distributes natural gas at retail to 90 communities, 617,000 customers, in Oregon (90% of custs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system to bring gas to market. Owns local underground storage. Rev. breakdown: resident'l & comm'l, 80%; ind., 8%; transport. and other, 12%. Employs 1,3050. Has abt 9,200 com. shrhldrs. Insiders own about 1% of com. (4/05 proxy). CEO: Mark S. Dodson. Inc.: OR. Addr.: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Web: www.nwnatural.com.

Northwest Natural ended a fine 2005 on a decent note. Excluding the costs of settling a dispute with some industrial customers, fourth-quarter 2005 earnings per share would have risen a few percent. The larger-than-normal earnings gain for all of 2005 resulted mostly from higher-than-average rate increases, profits from gas cost hedging, and earnings from storage operations. That said, customer growth also made a major contribution to the strong 2005 results as Northwest raised its customer count by over 3% for the 19th year in a row.

We look for a more normal earnings gain this year. Customer growth will likely continue at a healthy rate, very likely at the 3% plus recent rate as Oregon gains population. With weather normalization and conservation clauses in its Oregon residential rates, Northwest is largely protected from (and can also benefit little) from changes in consumption due to warmer- or colder-than-average temperatures and conservation, should high gas costs persist. Industrial gas sales should rise, as gas currently has a price advantage relative to oil. Finally, operation and maintenance costs will probably increase by less than the 11% rate in 2005 as the company begins to read about a third of its meters automatically.

Earnings will probably continue to benefit from above-average customer growth. Local use of gas in residences is relatively low, at 53%, giving Northwest good potential to profit from converting houses from other fuels. The company estimates that total prospects of around 480,000 include about 320,000 with a gas main either in their street or a few blocks away. And Northwest targets its marketing on the profitable prospects — those more likely to convert at modest cost to the utility. With OPEC apparently in firm control of oil prices, industrial customers will likely continue to use gas for fuel. Finally, acquisitions could help, given NWN's relatively low debt-to-capital ratio.

These untimely shares have some appeal for conservative investors. While their dividend yield is below the industry average, the payout ratio is on the low side, and Northwest has better growth prospects than most gas utilities.

Sigourney B. Romaine *March 17, 2006*

(A) Diluted earnings per share. Excludes nonrecurring gain: '98, $0.15; '00, $0.11. Next earnings report due early May.
(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November.
■ Div'd reinvestment plan available.
(C) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	70

PEOPLES ENERGY NYSE-PGL

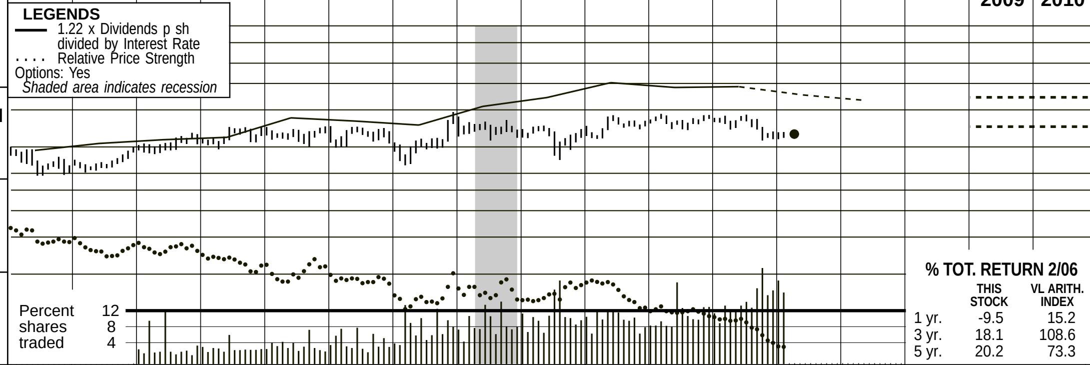
RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
36.82	16.4 (Trailing: 15.2 Median: 14.0)	0.88	5.9%	

TIMELINESS 4 Raised 2/3/06
SAFETY 2 Lowered 3/17/06
TECHNICAL 3 Raised 2/17/06
BETA .85 (1.00 = Market)

High:	32.0	37.4	39.9	40.1	40.3	46.9	44.6	40.4	45.3	46.0	45.5	37.8
Low:	24.3	29.6	31.3	32.1	31.8	26.2	34.3	27.8	34.9	38.5	34.3	34.9

Target Price Range

2009	2010	2011



2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+50%)	15%
Low	40	(+10%)	7%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	94	105	92
to Sell	79	66	82
Hld's(000)	22022	21808	21830

% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	-9.5	15.2
3 yr.	18.1	108.6
5 yr.	20.2	73.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
35.63	33.69	31.54	36.09	36.70	29.60	34.29	36.34	32.28	33.66	40.16	64.13	41.81	58.28	59.90	68.05	*75.90*	*75.65*	Revenues per sh A	*78.55*
3.74	3.73	3.67	3.85	3.99	3.68	4.98	4.92	4.44	4.74	5.58	5.84	5.59	5.88	5.32	5.30	*5.40*	*5.40*	"Cash Flow" per sh	*5.85*
2.07	2.05	2.06	2.11	2.13	1.78	2.96	2.81	2.25	2.39	2.71	3.16	2.80	2.88	2.18	2.26	*2.25*	*2.40*	Earnings per sh B	*2.70*
1.65	1.71	1.76	1.78	1.80	1.80	1.82	1.87	1.91	1.95	2.00	2.04	2.07	2.12	2.16	2.18	*2.18*	*2.18*	Div'ds Decl'd per sh C ■	*2.24*
3.15	3.10	3.40	3.77	2.50	2.75	2.45	2.55	4.05	6.45	7.02	7.52	5.66	5.10	5.02	4.26	*4.35*	*4.25*	Cap'l Spending per sh	*4.30*
16.61	16.95	17.72	18.02	18.39	18.38	19.49	20.43	21.03	21.66	22.02	22.76	22.74	23.11	23.06	20.95	*20.65*	*20.40*	Book Value per sh D	*20.60*
32.70	32.76	34.77	34.88	34.87	34.91	34.96	35.07	35.26	35.49	35.30	35.40	35.46	36.69	36.69	38.16	*39.00*	*40.00*	Common Shs Outst'g E	*42.00*
11.2	11.8	13.1	15.0	13.3	14.7	10.7	12.7	16.2	15.5	12.1	12.3	13.3	13.4	19.1	18.9	*Bold figures are*		Avg Ann'l P/E Ratio	*17.0*
.83	.75	.79	.89	.87	.98	.67	.73	.84	.88	.79	.63	.73	.76	1.02	1.00	*Value Line*		Relative P/E Ratio	*1.15*
7.1%	7.0%	6.5%	5.6%	6.3%	6.9%	5.7%	5.2%	5.2%	5.3%	6.1%	5.2%	5.5%	5.5%	5.2%	5.1%	*estimates*		Avg Ann'l Div'd Yield	*4.9%*

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
1198.7	1274.4	1138.1	1194.4	1417.5	2270.2	1482.5	2138.4	2260.2	2599.6	*2960*	*3025*	Revenues ($mill) A	*3300*
103.4	98.4	79.4	84.8	96.1	111.7	99.3	103.9	81.6	86.2	*90.0*	*95.0*	Net Profit ($mill)	*115.0*
37.6%	36.4%	36.2%	35.9%	34.1%	35.4%	34.2%	36.3%	31.7%	36.4%	*36.0%*	*36.0%*	Income Tax Rate	*35.0%*
8.6%	7.7%	7.0%	7.1%	6.8%	4.9%	6.7%	4.9%	3.6%	*3.3%*	*3.0%*	*3.2%*	Net Profit Margin	*3.4%*
43.6%	42.4%	41.1%	40.4%	35.1%	44.4%	40.7%	46.7%	50.8%	52.8%	*52.6%*	*52.3%*	Long-Term Debt Ratio	*50.9%*
56.4%	57.6%	58.9%	59.6%	64.9%	55.6%	59.3%	53.3%	49.2%	47.2%	*47.4%*	*47.7%*	Common Equity Ratio	*49.1%*
1208.3	1243.5	1258.0	1290.5	1196.7	1449.8	1360.3	1592.3	1767.5	1695.8	*1700*	*1710*	Total Capital ($mill)	*1760*
1381.1	1402.2	1446.7	1519.8	1645.3	1753.9	1773.9	1838.2	1904.2	1947.3	*1970*	*2040*	Net Plant ($mill)	*2370*
10.3%	9.5%	7.8%	8.0%	9.5%	9.3%	8.4%	8.1%	6.0%	6.6%	*7.0%*	*7.0%*	Return on Total Cap'l	*8.0%*
15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	9.4%	10.8%	*11.0%*	*11.5%*	Return on Shr. Equity	*13.5%*
15.2%	13.7%	10.7%	11.0%	12.4%	13.9%	12.3%	12.3%	9.4%	10.8%	*11.0%*	*11.5%*	Return on Com Equity	*13.5%*
5.9%	4.7%	1.7%	2.1%	3.4%	5.0%	3.3%	3.4%	.2%	.5%	*.5%*	*1.0%*	Retained to Com Eq	*2.5%*
61%	66%	84%	81%	73%	64%	73%	73%	97%	95%	*94%*	*92%*	All Div'ds to Net Prof	*82%*

CAPITAL STRUCTURE as of 12/31/05
Total Debt $1072.5 mill. **Due in 5 Yrs** $226.9 mill.
LT Debt $895.2 mill. **LT Interest** $50.0 mill.
(Total interest coverage: 2.9x)

Pension Assets-9/05 $480.6 mill. **Oblig.** $508.6 mill.

Pfd Stock None

Common Stock 38,347,808 shs. **as of 1/31/06**
MARKET CAP: $1.4 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2004	2005	12/31/05
Cash Assets	21.1	43.5	48.2
Other	531.3	855.1	1079.9
Current Assets	552.4	898.6	1128.1
Accts Payable	144.7	236.2	418.0
Debt Due	55.6	8.1	177.3
Other	335.8	657.4	489.2
Current Liab.	536.1	901.7	1084.5
Fix. Chg. Cov.	304%	332%	190%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '09-'11
Revenues	4.5%	9.5%	5.5%
"Cash Flow"	4.0%	3.5%	0.5%
Earnings	2.5%	1.0%	0.5%
Dividends	1.5%	2.0%	1.0%
Book Value	2.5%	2.0%	-1.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	549.2	903.8	398.1	287.3	2138.4
2004	604.9	927.0	401.1	327.2	2260.2
2005	737.4	1026.9	455.9	379.4	2599.6
2006	1052.4	*1065*	*465*	*377.6*	*2960*
2007	*1070*	*1105*	*470*	*380*	*3025*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	.87	1.77	.22	.04	F 2.87
2004	.85	1.46	.15	d.27	F 2.18
2005	.77	1.37	.18	d.06	2.26
2006	.93	*1.20*	*.22*	*d.10*	*2.25*
2007	*.95*	*1.30*	*.20*	*d.05*	*2.40*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.51	.52	.52	.52	2.07
2003	.53	.53	.53	.53	2.12
2004	.54	.54	.54	.54	2.16
2005	.54	.545	.545	.545	2.18
2006	.545				

BUSINESS: Peoples Energy Corporation distributes natural gas via its utility subsidiaries, Peoples Gas Light & Coke Co. (approx. 814,000 customers at 9/30/05) and North Shore Gas Co. (155,000), in Chicago and northeastern Illinois. Fiscal 2004 gas distribution revenues: $1.7 billion: residential, 79%; commercial, 15%; industrial, 3%; other, 3%. Main supplier is Natural Gas Pipeline Co. of America. Purchased gas costs and revenue taxes accounted for 76% of gas revenues in fiscal '05. Depreciation rate: 5.5%. Est'd plant age: 11 years. Has 2,182 empls., 19,236 shareholders. Off. and Dir. own 1.5% of common (1/06 Proxy). Chrmn. and CEO: Thomas Patrick. Inc.: IL. Address: 130 E. Randolph Dr., Chicago, IL 60601. Tel.: 312-240-4730. Internet: www.peoplesenergy.com.

Share earnings at Peoples Energy should be relatively flat in 2006, as margins narrow. Partially as a result of warmer weather in January, management is anticipating EPS at the low end of its projected guidance of $2.25-$2.45. From 2007 to the end of the decade, we expect earnings growth to resume, albeit at a moderate pace.

On March 6th, the Illinois Commerce Commission (ICC) approved an amended settlement with Peoples Energy. The agreement, between the company's subsidiaries and the Illinois attorney general, the city of Chicago, and the Citizens Utility Board, was related to natural gas charges for 2000-2004. As part of the settlement, PGL will pay $100 million in customer refunds, spend up to $30 million funding conservation programs, and cease collections on roughly $207 million in customer bad debt. The settlement was a tough pill to swallow, but it clears the way to focus on normal operations.

The company recently acquired oil and gas properties by way of subsidiary Peoples Energy Production. The deal involved the purchase of property in east Texas, north Louisiana, and Mississippi for about $139 million. This remains consistent with the company's strategy of acquiring property with proven reserves and upside potential, as management expects the company to enjoy an abundance of low-risk drilling opportunities in the coming years. Also, the company appears poised to exit the power generation business, as PGL is currently looking to sell its power assets.

Peoples Energy faces a period of transition in 2006, as CEO Thomas M. Patrick recently announced his intention to retire within a year. The board is currently in the process of screening for successor candidates.

Despite the high dividend yield, shares of PGL are not particularly attractive. Although we believe management intends to maintain the current dividend, a payout ratio of 95% reduces the company's financial flexibility. Some much-needed rate relief is in the preliminary stages. There's a chance this may become effective early in fiscal 2007. For now, the stock is untimely.

Michael F. Napoli *March 17, 2006*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings per share. Excludes nonrecurring gains/(losses): '05, ($0.21); 1Q, '06, ($1.44). Next earnings report due late April.
(C) Dividends historically paid mid-January, April, July, October. ■ Dividend reinvestment plan available.
(D) Includes deferred charges. At 9/30/05: $47.9 mill., $1.26/sh.
(E) In millions.
(F) Earnings don't sum due to change in shares outstanding.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	80

SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
28.17	16.4	(Trailing: 16.4 / Median: 14.0)	0.89	3.3%	VALUE LINE

TIMELINESS **4** Lowered 3/10/06
SAFETY **2** Lowered 1/4/91
TECHNICAL **3** Raised 2/3/06
BETA .65 (1.00 = Market)

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+25%)	9%
Low	25	(-10%)	2%

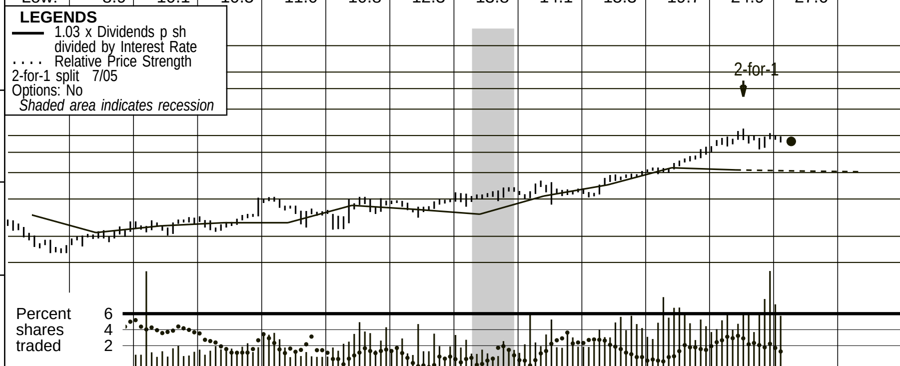
Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	1	1	0	0	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	2	1	0	1	0	0	0	0

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	54	55	63
to Sell	35	42	49
Hld's(000)	15608	12984	14085

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	11.8	12.3	15.3	15.4	15.4	15.1	17.0	18.3	20.3	26.5	32.4	30.2
Low:	8.9	10.1	10.5	11.0	10.8	12.3	13.8	14.1	15.3	19.7	24.9	27.6



Target Price Range 2009 | 2010 | 2011

% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	5.5	15.2
3 yr.	99.8	108.6
5 yr.	116.2	73.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
14.40	15.10	16.67	17.03	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	**32.75**	**33.95**	Revenues per sh	**38.40**
1.34	1.37	1.56	1.54	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	**2.95**	**3.00**	"Cash Flow" per sh	**3.50**
.67	.64	.81	.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	**1.85**	**1.95**	Earnings per sh A	**2.30**
.70	.71	.71	.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	**.93**	**.98**	Div'ds Decl'd per sh B ■	**1.15**
2.11	2.17	1.69	1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	**3.60**	**3.70**	Cap'l Spending per sh	**4.05**
6.79	6.77	6.95	7.17	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	**14.40**	**15.05**	Book Value per sh C	**17.50**
18.06	18.48	19.00	19.61	21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	**29.00**	**29.60**	Common Shs Outst'g D	**31.00**
13.6	14.5	13.2	15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	*Bold figures are*		Avg Ann'l P/E Ratio	**14.0**
1.01	.93	.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	*Value Line*		Relative P/E Ratio	**.95**
7.7%	7.6%	6.6%	5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	*estimates*		Avg Ann'l Div'd Yield	**3.6%**

CAPITAL STRUCTURE as of 9/30/05
Total Debt $392.9 mill. **Due in 5 Yrs** $58.5 mill.
LT Debt $319.1 mill. **LT Interest** $20.5 mill.
(Total interest coverage: 5.0x)

Pension Assets-12/04 $107.5 mill. **Oblig.** $100.5 mill.

Pfd Stock none

Common Stock 28,703,549 common shs. **(as of 11/8/05)**

MARKET CAP: $800 million (Small Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
355.5	348.6	450.2	392.5	515.9	837.3	505.1	696.8	819.1	921.0	**950**	**1005**	Revenues ($mill)	**1190**
18.5	18.4	13.8	22.0	24.7	26.8	29.4	34.6	43.0	48.6	**53.0**	**60.0**	Net Profit ($mill)	**70.0**
35.5%	36.8%	46.2%	42.8%	43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	**40.5%**	**40.5%**	Income Tax Rate	**40.5%**
5.2%	5.3%	3.1%	5.6%	4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	**5.6%**	**5.6%**	Net Profit Margin	**5.9%**
46.1%	54.6%	57.3%	53.8%	54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	**43.0%**	**43.0%**	Long-Term Debt Ratio	**40.0%**
53.2%	35.8%	33.5%	37.0%	37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	**57.0%**	**57.0%**	Common Equity Ratio	**60.0%**
324.8	387.1	401.1	405.9	443.5	516.2	512.5	608.4	675.0	710.3	**735**	**780**	Total Capital ($mill)	**895**
423.9	456.5	504.3	533.3	562.2	607.0	666.6	748.3	799.9	877.3	**940**	**1010**	Net Plant ($mill)	**1200**
7.9%	6.7%	5.3%	7.4%	7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	**8.5%**	**8.5%**	Return on Total Cap'l	**9.0%**
10.5%	10.5%	8.1%	11.7%	12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	**12.5%**	**12.5%**	Return on Shr. Equity	**13.0%**
10.6%	13.3%	10.3%	14.6%	14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	**12.5%**	**12.5%**	Return on Com Equity	**13.0%**
1.6%	2.1%	NMF	4.2%	4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	**6.5%**	**6.5%**	Retained to Com Eq	**6.0%**
85%	84%	112%	72%	67%	76%	62%	57%	52%	50%	**51%**	**51%**	All Div'ds to Net Prof	**52%**

CURRENT POSITION ($MILL.)	2003	2004	9/30/05
Cash Assets	4.4	5.3	6.7
Other	261.4	278.6	287.8
Current Assets	265.8	283.9	294.5
Accts Payable	80.3	118.8	136.7
Debt Due	118.1	97.6	73.8
Other	70.1	68.9	113.4
Current Liab.	268.5	285.3	323.9
Fix. Chg. Cov.	378%	427%	445%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	5.5%	7.5%	4.5%
"Cash Flow"	4.5%	6.5%	6.5%
Earnings	8.0%	11.5%	7.0%
Dividends	1.5%	2.5%	6.0%
Book Value	5.5%	13.0%	6.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	279.9	106.2	90.1	220.6	696.8
2004	307.6	136.5	129.5	245.5	819.1
2005	328.6	154.0	157.0.0	281.4	921.0
2006	*340*	*170*	*165*	*275*	*950*
2007	*355*	*180*	*180*	*290*	*1005*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.92	.08	d.07	.44	1.37
2004	.91	.15	.02	.50	1.58
2005	.96	.27	.09	.39	1.71
2006	*.95*	*.28*	*.10*	*.52*	*1.85*
2007	*.98*	*.30*	*.12*	*.55*	*1.95*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.185	.188	.188	.38	.94
2003	--	.193	.193	.395	.78
2004	--	.202	.202	.415	.82
2005	--	.213	.213	.438	.86
2006	--				

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 314,000 customers in New Jersey's southern counties, which cover 2,500 square miles and include Atlantic City. Principal suppliers include Transcontinental Gas Pipeline and Columbia Gas Pipeline. Gas revenue mix '04: residential, 31%; commercial and industrial, 10%; transportion, including off-system sales and gas marketing, 54%; off-system, 4%; cogeneration & power generation, 1%. Has 643 employees. Off./dir. cntrl. 1.4% of com. shares; Dimensional Fund Advisors, 7.4% (3/05 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Rte. 54, Folsom, NJ 08037. Telephone: 609-561-9000. Web: www.sjindustries.com.

South Jersey reported its seventh consecutive year of earnings increases in 2005, and we look for these favorable trends to continue in 2006 and 2007. This past year, the utility added 8,845 customers, which represented a near 3% growth rate, with a similar rate projected for 2006. Also, South Jersey Gas filed a Conservation and Usage Adjustment proposal with the New Jersey Board of Pubic Utilities. This would allow SJI to capture variations related to weather and customer usage, with results compared to a benchmark on an annual basis. This issue will likely be resolved before next year's winter heating season. Moreover, South Jersey has targeted average annual earnings growth of about 6%–7% over the next few years, which we think is likely.

Increased business from South Jersey's nonregulated segment should support higher profits. In 2005, earnings from these activities advanced 22%, to $14 million from the year-ago period. In particular, the company's Marina Energy subsidiary posted income of $3.7 million, well ahead of the $2.6 million from 2004, and we look for additional gains this year. This can be attributed to the thermal energy plant expansion currently under way at the Borgata Hotel Casino & Spa in Atlantic City, along with the Warren County landfill gas project. Marina Energy will provide up to 5.5 megawatts of "green" power to the Borgata under a 20-year contract. Furthermore, SJI formed South Jersey Energy Solutions (SJES) in a strategic move to enable its nonregulated subsidiaries to more effectively compete in new and existing markets. This design will allow SJES to combine resources from the company's various energy segments.

This untimely stock has some appeal for investors interested in dividend growth. The yield, which stands at 3.3%, is below that of the average gas utility covered in *The Value Line Investment Survey*. But, over the 2009–2011 period, we are forecasting annual dividend increases of over 5%. These shares have an Above-Average Safety rank (2) and our highest rating (100) for Stock Price Stability. Finally, SJI's finances are improving and we look for a slight reduction in its debt-to-equity ratio to late decade.

Evan I. Blatter *March 17, 2006*

(A) Based on avg. shs. Excl. nonrecur. gain: '01, $0.13. Excl gain (losses) from discont. ops.: '96, $1.14; '97, ($0.24); '98, ($0.26); '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02). Excl. gain due to acct'g change: '93, $0.04; '01, $0.14. Next egs. report due late April.
(B) Dividends paid early Apr., Jul., Oct, and late Dec. ■ Div. reinvest. plan avail. (2% disc.).
(C) Incl. regulatory assets ($121.5 mill.): at 12/31/05, $4.19 per shr.
(D) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	90
Earnings Predictability	85

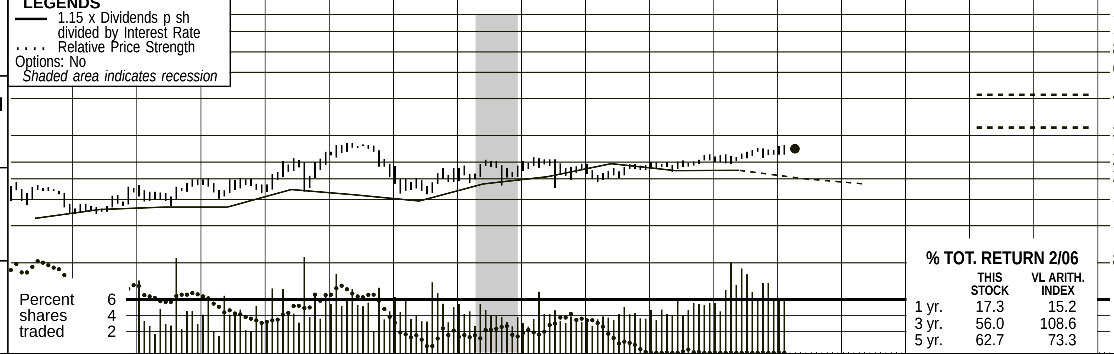
SOUTHWEST GAS NYSE-SWX

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
27.76	21.4	(Trailing: 17.2 Median: 20.0)	1.16	3.0%	VALUE LINE

TIMELINESS 4 Lowered 12/30/05
SAFETY 3 Lowered 1/4/91
TECHNICAL 3 Lowered 10/21/05
BETA .80 (1.00 = Market)

High:	18.4	19.9	20.3	26.9	29.5	23.0	24.7	25.3	23.6	26.2	28.1	29.0
Low:	13.6	14.9	16.1	17.3	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0

LEGENDS
— 1.15 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: No
Shaded area indicates recession



Target Price Range
2009 | 2010 | 2011

2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+80%)	17%
Low	35	(+25%)	8%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	1	0	0	0	0	0	1	2
Options	1	1	4	0	5	7	0	0	0
to Sell	1	3	7	0	5	7	0	0	0

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	69	72	62
to Sell	45	46	53
Hld's(000)	22886	26079	25543

Percent shares traded 6 4 2

% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	17.3	15.2
3 yr.	56.0	108.6
5 yr.	62.7	73.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
25.90	24.99	25.93	25.68	28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	**43.75**	**45.00**	**44.65**	Revenues per sh A	**46.65**
3.96	1.53	3.34	3.24	5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	**5.30**	**5.75**	**6.10**	"Cash Flow" per sh	**7.00**
1.81	d.76	.81	.63	1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.24	**1.55**	**1.75**	Earnings per sh A B	**2.30**
1.40	.88	.70	.74	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	**.82**	**.82**	Div'ds Decl'd per sh C■	**.82**
5.06	3.76	5.02	5.43	6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	**6.75**	**6.75**	**6.55**	Cap'l Spending per sh	**6.45**
17.63	15.88	15.99	15.96	16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	**18.60**	**19.15**	**19.30**	Book Value per sh	**22.45**
20.04	20.60	20.60	21.00	21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	**39.20**	**40.00**	**42.00**	Common Shs Outst'g D	**45.00**
8.7	--	16.6	26.5	14.0	NMF	NMF	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.8	*Bold figures are*		Avg Ann'l P/E Ratio	**18.0**
.65	--	1.01	1.57	.92	NMF	NMF		.69	1.20	1.04	.97	1.09	1.09	.76	1.11	*Value Line*		Relative P/E Ratio	**1.20**
8.9%	7.0%	5.2%	4.4%	4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	*estimates*		Avg Ann'l Div'd Yield	**2.0%**

CAPITAL STRUCTURE as of 9/30/05

Total Debt $1359.2 mill. **Due in 5 Yrs** $452.5 mill.
LT Debt $1249.2 mill. **LT Interest** $80.0 mill.
(Total interest coverage: 1.9x)

Pension Assets-12/04 $318.7 mill.
Oblig. $428.1 mill.

Pfd Stock None

Common Stock 39,124,126 shs.
(as of 11/1/05)

MARKET CAP: $1.1 billion (Mid Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
644.1	732.0	917.3	936.9	1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	**1800**	**1875**	Revenues ($mill) A	**2100**
6.6	20.8	47.5	39.3	38.3	37.2	38.6	38.5	58.9	48.1	**60.0**	**75.0**	Net Profit ($mill)	**105**
37.1%	29.2%	43.4%	35.5%	26.2%	34.5%	32.8%	30.5%	34.8%	**33.5%**	**35.0%**	**35.0%**	Income Tax Rate	**32.0%**
1.0%	2.8%	5.2%	4.2%	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	**3.7%**	**4.0%**	Net Profit Margin	**5.0%**
60.2%	63.6%	60.2%	60.3%	60.2%	56.2%	62.5%	66.0%	64.2%	**62.5%**	**62.5%**	**62.0%**	Long-Term Debt Ratio	**56.5%**
34.4%	31.5%	35.3%	35.5%	35.8%	39.6%	34.1%	34.0%	35.8%	**37.5%**	**37.5%**	**38.0%**	Common Equity Ratio	**43.5%**
1104.8	1224.7	1349.3	1424.7	1489.9	1417.6	1748.3	1851.6	1968.6	**1940**	**2030**	**2125**	Total Capital ($mill)	**2325**
1278.5	1360.3	1459.4	1581.1	1686.1	1825.6	1979.5	2175.7	2336.0	**2450**	**2600**	**2750**	Net Plant ($mill)	**3200**
2.8%	3.9%	5.8%	4.8%	4.6%	5.1%	4.3%	4.2%	5.0%	**4.5%**	**5.0%**	**5.5%**	Return on Total Cap'l	**6.5%**
1.5%	4.7%	8.9%	7.0%	6.5%	6.0%	5.9%	6.1%	8.3%	**6.5%**	**8.0%**	**9.5%**	Return on Shr. Equity	**10.5%**
1.7%	5.4%	10.0%	7.8%	7.2%	6.6%	6.5%	6.1%	8.3%	**6.5%**	**8.0%**	**9.5%**	Return on Com Equity	**10.5%**
NMF	NMF	5.0%	2.8%	2.4%	1.9%	1.9%	1.7%	4.3%	**2.3%**	**3.5%**	**5.0%**	Retained to Com Eq	**6.5%**
NMF	107%	50%	64%	67%	71%	70%	72%	49%	64%	**55%**	**46%**	All Div'ds to Net Prof	**35%**

CURRENT POSITION ($MILL.)

	2003	2004	9/30/05
Cash Assets	17.2	13.6	16.9
Other	263.9	418.4	281.1
Current Assets	281.1	432.0	298.0
Accts Payable	110.1	165.9	97.6
Debt Due	58.4	129.8	110.0
Other	141.9	187.3	182.7
Current Liab.	310.4	483.0	390.3
Fix. Chg. Cov.	182%	166%	183%

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '09-'11
Revenues	4.0%	6.0%	*3.0%*
"Cash Flow"	3.0%	4.5%	*4.0%*
Earnings	4.0%	1.5%	*8.5%*
Dividends	1.0%	--	*Nil*
Book Value	1.5%	4.0%	*3.0%*

QUARTERLY REVENUES ($ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	403.3	255.8	220.2	351.7	1231.0
2004	473.4	278.7	264.5	460.5	1477.1
2005	542.9	361.1	313.3	497.0	1714.3
2006	***565***	***385***	***335***	***515***	***1800***
2007	***590***	***400***	***350***	***535***	***1875***

EARNINGS PER SHARE B

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.76	d.12	d.51	1.00	1.13
2004	1.18	d.24	d.51	1.23	1.66
2005	.88	d.07	d.43	.87	1.25
2006	***.95***	***d.07***	***d.45***	***1.12***	***1.55***
2007	***1.05***	***d.05***	***d.50***	***1.25***	***1.75***

QUARTERLY DIVIDENDS PAID C■

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.205	.205	.205	.205	.82
2003	.205	.205	.205	.205	.82
2004	.205	.205	.205	.205	.82
2005	.205	.205	.205	.205	.82
2006	.205				

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approx. 1.6 million customers in sections of Arizona, Nevada, and California. '04 margin mix: resid. and small commercial, 83%; large commercial and industrial, 4%; transportation, 13%. Annual volume: 2.2 billion therms. Principal suppliers: El Paso Natural Gas Co. and Northwest Pipeline Corp. Acquired gas utility assets from Arizona Public Service in 1984. Sold PriMerit Bank (acq. in '86) in 7/96. Has about 2,550 employees, 22,990 shareholders. Officers & Directors own 2.7% of common (3/05 Proxy). Chairman.: Thomas Y. Hartley. CEO: Jeffrey W. Shaw. Incorporated: CA. Address: 5241 Spring Mountain Rd., Las Vegas, NV 89102. Telephone: 702-876-7011. Internet: www.swgas.com.

In its most recent quarterly reporting period, Southwest Gas posted an increase in sales of 8%, but EPS fell by 29%. For full-year 2005, revenues increased by 16% and share earnings decreased by 25%. Margins narrowed as growth in natural gas costs outpaced revenue gains. Hot, dry weather in the company's service territory has reduced gas consumption.

For 2006, we are anticipating moderate revenue growth and an earnings rebound. Margins should improve, due partly to rate relief granted by the Arizona Corporation Commission (discussed below). We expect sales and earnings growth to continue from 2007 to late decade, although most likely at a slower pace.

The Arizona Corporation Commission (ACC) granted Southwest Gas a rate increase in February. This follows rate relief granted in California and Nevada last year. In order to help Southwest cope with the rising price of natural gas, the ACC approved a revenue increase of $49.3 million. The customer's average monthly gas bill will increase to cover the extra cost. The company got most of what it asked for in the rate case.

In the coming years, we expect Southwest to continue to grow its customer base. In recent years, it has increased this figure by about 4%-5% per year. While this ability to grow is impressive, such expansion also entails increased operating and maintenance costs.

Finances are subpar. Long-term debt should comprise roughly 62% of total capital in 2005. We expect this figure to decline somewhat in the coming years, as increases in long-term debt are outpaced by growth in shareholders' equity. Nevertheless, Southwest is likely to remain more leveraged than we would prefer. Rate relief can, at times, lag customer growth, too.

Southwest Gas shares are untimely. Patient investors may be rewarded, however, as the stock enjoys above-average total return potential. With a current dividend yield of 3%, the shares have some appeal to income-oriented accounts. Even so, such investors should note the fact that management has not increased the dividend in more than a decade.

Michael F. Napoli *March 17, 2006*

(A) Incl. income for PriMerit Bank on the equity basis through 1994.
(B) Based on avg. shares outstand. thru. '96, then diluted. Excl. nonrec. gains (losses): '93, 8¢; '97, 16¢; '02, (10¢); '05, (11¢). Incl. asset writedown: '86, 9¢; '93, 44¢. Excl. loss from disc. ops.: '95, 75¢. Next egs. report due late April.
(C) Dividends historically paid early March, June, September, December.
■ Div'd reinvest. plan avail.
(D) In millions.

Company's Financial Strength	B
Stock's Price Stability	95
Price Growth Persistence	55
Earnings Predictability	65

WGL HOLDINGS NYSE-WGL

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD
29.98	16.2	(Trailing: 14.0) (Median: 15.0)	0.88	4.5%

VALUE LINE

TIMELINESS	5 Lowered 9/2/05
SAFETY	1 Raised 4/2/93
TECHNICAL	4 Lowered 3/17/06

BETA .80 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
High:	22.4	25.0	31.4	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	31.5
Low:	16.1	19.1	20.9	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	29.6

2009-11 PROJECTIONS

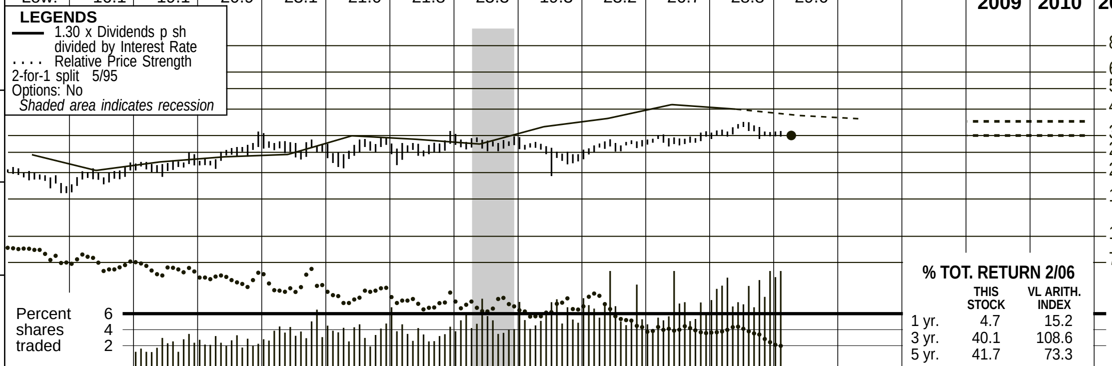
	Price	Gain	Ann'l Total Return
High	35	(+15%)	8%
Low	30	(Nil)	5%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	1	0	0	1	0	0	0	0
to Sell	0	1	0	0	1	0	0	0	0

Institutional Decisions

	2Q2005	3Q2005	4Q2005
to Buy	96	97	88
to Sell	63	65	67
Hld's(000)	27756	27169	27959



% TOT. RETURN 2/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	4.7	15.2
3 yr.	40.1	108.6
5 yr.	41.7	73.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
18.75	17.50	18.37	21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	*51.15*	*53.35*	Revenues per sh A	*59.45*
2.17	2.04	2.17	2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	*3.75*	*3.90*	"Cash Flow" per sh	*4.50*
1.26	1.14	1.27	1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.11	*1.85*	*1.95*	Earnings per sh B	*2.40*
1.01	1.05	1.07	1.09	1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	*1.35*	*1.38*	Div'ds Decl'd per sh C■	*1.45*
2.38	2.05	2.17	2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	*4.10*	*4.05*	Cap'l Spending per sh	*2.55*
10.17	9.63	10.66	11.04	11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	*17.85*	*18.60*	Book Value per sh D	*21.30*
39.23	39.89	40.62	41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	*48.70*	*48.70*	Common Shs Outst'g E	*48.80*
11.7	12.8	13.6	15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.87	.82	.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	*Value Line*		Relative P/E Ratio	*.90*
6.9%	7.2%	6.2%	5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	*estimates*		Avg Ann'l Div'd Yield	*4.3%*

CAPITAL STRUCTURE as of 12/31/05
Total Debt $946.2 mill. **Due in 5 Yrs** $530.0 mill.
LT Debt $560.4 mill. **LT Interest** $40.0 mill.
(LT interest earned: 5.1x; total interest coverage: 4.9x)
Pension Assets-9/05 $691.7 mill. **Oblig.** $691.2 mill.
Preferred Stock $28.2 mill. **Pfd Div'd** $1.3 mill.

Common Stock 48,762,228 shs. **as of 1/31/06**

MARKET CAP: $1.5 billion (Mid Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
969.8	1055.8	1040.6	972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	*2490*	*2600*	Revenues ($mill) A	*2900*
81.6	82.0	68.6	68.8	84.6	89.9	55.7	112.3	98.0	104.8	*90.0*	*95.0*	Net Profit ($mill)	*120*
37.7%	36.9%	35.6%	36.0%	36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	*38.0%*	*38.0%*	Income Tax Rate	*38.0%*
8.4%	7.8%	6.6%	7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	*3.6%*	*3.7%*	Net Profit Margin	*4.1%*
37.6%	41.1%	40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	*39.0%*	*39.0%*	Long-Term Debt Ratio	*39.0%*
59.4%	56.2%	57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	*59.0%*	*59.0%*	Common Equity Ratio	*59.0%*
941.1	1049.0	1064.8	1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	*1515*	*1575*	Total Capital ($mill)	*1790*
1130.6	1217.1	1319.5	1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	*2120*	*2270*	Net Plant ($mill)	*2550*
10.1%	9.3%	8.0%	7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	*6.0%*	*6.0%*	Return on Total Cap'l	*6.5%*
13.9%	13.3%	10.8%	9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	*10.0%*	*10.0%*	Return on Shr. Equity	*11.0%*
14.4%	13.7%	11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	*10.0%*	*10.0%*	Return on Com Equity	*11.0%*
5.6%	5.1%	2.5%	1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	*2.5%*	*3.0%*	Retained to Com Eq	*4.5%*
62%	63%	78%	82%	69%	67%	112%	56%	65%	62%	*74%*	*70%*	All Div'ds to Net Prof	*60%*

CURRENT POSITION ($MILL.)	2004	2005	12/31/05
Cash Assets	6.6	4.8	25.8
Other	426.3	476.2	936.6
Current Assets	432.9	481.0	962.4
Accts Payable	179.0	204.9	351.4
Debt Due	156.3	91.0	385.8
Other	77.6	115.5	255.1
Current Liab.	412.9	411.4	992.3
Fix. Chg. Cov.	449%	460%	450%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.5%	14.5%	*5.5%*
"Cash Flow"	5.0%	6.5%	*2.5%*
Earnings	4.5%	6.0%	*2.0%*
Dividends	1.5%	1.5%	*2.0%*
Book Value	4.0%	3.0%	*4.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	560.0	851.1	373.2	279.9	2064.2
2004	585.3	862.2	356.9	285.2	2089.6
2005	623.4	929.8	349.0	284.1	2186.3
2006	909.3	*920*	*360*	*300.7*	*2490*
2007	*920*	*940*	*390*	*350*	*2600*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2003	1.10	1.61	d.05	d.36	2.30
2004	.81	1.62	d.08	d.37	1.98
2005	.88	1.63	d.17	d.23	2.11
2006	.91	*1.45*	*d.20*	*d.31*	*1.85*
2007	*.94*	*1.56*	*d.20*	*d.35*	*1.95*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.315	.318	.318	.318	1.27
2002	.318	.32	.32	.32	1.28
2003	.32	.325	.325	.325	1.30
2004	.325	.333	.333	.333	1.32
2005	.333				

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA. and MD. to resident'l and comm'l users (1,029,430 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 9.3% of common stock; Off./dir. less than 1% (1/06 proxy). Chrmn. & CEO: J.H. DeGraffenreidt. Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings is off to a decent start in fiscal 2006 (ends September 30th). The mainstay utility segment, where earnings are largely dependent on the rates it is able to charge customers, reported earnings of $0.92 a share in the most recent quarter, a 14% increase over a year ago. Contributing to these results was weather that was 10% colder than normal. Also, during the quarter, the company purchased a three-year weather insurance policy covering Washington D.C., and a heating degree-day derivative contract to cover the winter season in its Virginia service area. Both of these policies are designed to fully protect against warmer-than-normal temperatures, which should help second-quarter results somewhat due to the above-average temperatures experienced in January. Elsewhere, WGL continues to add meters at a nice pace, and is on track to gain an additional 30,500 customers for the year. However,

WGL Holdings' nonregulated segment reported a loss of $0.01 a share for the December period. This is well below the $0.07 gain last year, and was primarily due to poor results from the retail energy marketing segment. The unit struggled owing to lower margins on natural gas, which can be attributed to larger mark-to-market losses. Moreover, the heating ventilating, and air-conditioning segment posted a loss of $431,000, similar to the prior year. As a result of the lackluster performance from WGL's nonregulated activities, we have lowered our 2006 earnings forecast by a nickel, to $1.85, which is within management's guided range. Modest progress is possible in 2007.

The Prince George's County repair efforts continue to progress. So far, Washington Gas has completed about 23% of the main replacements and 21% of the service work. It will evaluate the effects of these capital expenditures on its ability to earn its allowed rate of return, before taking appropriate action.

This stock may interest income-oriented investors. The yield is very respectable among WGL's utility competitors and these shares carry our Highest ratings for Safety (1) and Price Stability (100). This issue is not well ranked for performance, though (Timeliness: 5).

Evan I. Blatter *March 17, 2006*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes non-recurring losses: '01, (13¢); '02, (34¢).
Next earnings report due late April.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '05: $150.0 million, $3.08/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	80
Earnings Predictability	60

ATTACHMENT D

Zacks.com Quotes and Research

AMERICAN STS WTR CO AWR (NYSE)

American States is a public utility company engaged principally in thepurchase, production, distribution and sale of water. The company alsodistributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

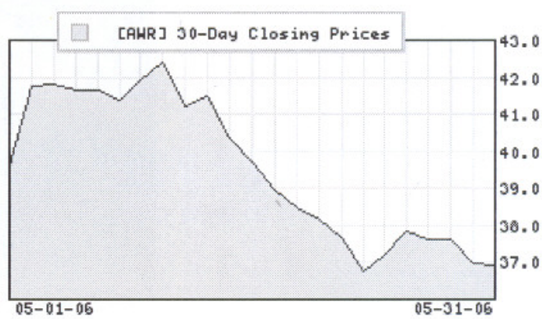
General Information

AMER STATES WTR
630 East Foothill Boulevard
San Dimas, CA 91773
Phone: 909 394-3600
Fax: 909 394-0711
Web: www.aswater.com
Email: investorinfo@aswater.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/06
Next EPS Date	08/10/2006

Price and Volume Information

Zacks Rank	1
Yesterday's Close	36.90
52 Week High	42.39
52 Week Low	27.98
Beta	0.09
20 Day Moving Average	112,755
Target Price Consensus	46



% Price Change

4 Week	-5.12
12 Week	6.97
YTD	22.08

% Price Change Relative to S&P 500

4 Week	-3.27
12 Week	6.81
YTD	19.04

Share Information

Shares Outstanding (millions)	16.81
Market Capitalization (millions)	632.06
Short Ratio	9.97
Last Split Date	06/10/2002

Dividend Information

Dividend Yield	2.39%
Annual Dividend	$0.90
Payout Ratio	0.65
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	02/08/2006 / $0.22

EPS Information

Current Quarter EPS Consensus Estimate	0.40
Current Year EPS Consensus Estimate	1.50
Estimated Long-Term EPS Growth Rate	6.00
Next EPS Report Date	08/10/2006

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	3.00
30 Days Ago	3.00
60 Days Ago	3.00
90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	24.98	vs. Previous Year	47.37%	vs. Previous Year	21.73%
Trailing 12 Months:	27.05	vs. Previous Quarter	-6.67%	vs. Previous Quarter:	4.80%
PEG Ratio	4.16				
Price Ratios		**ROE**		**ROA**	
Price/Book	2.37	03/31/06	8.97	03/31/06	2.73
Price/Cash Flow	12.99	12/31/05	8.47	12/31/05	2.59
Price / Sales	2.56	09/30/05	7.68	09/30/05	2.37
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	0.84	03/31/06	0.83	03/31/06	9.51
12/31/05	0.89	12/31/05	0.87	12/31/05	9.33
09/30/05	0.54	09/30/05	0.53	09/30/05	8.50
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	-	03/31/06	-	03/31/06	15.89
12/31/05	11.33	12/31/05	11.33	12/31/05	15.73
09/30/05	-	09/30/05	-	09/30/05	15.66
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	-	03/31/06	1.00	03/31/06	50.11
12/31/05	55.81	12/31/05	1.02	12/31/05	50.40
09/30/05	-	09/30/05	0.87	09/30/05	46.53

Zacks.com Quotes and Research

CALIFORNIA WTR SVC GROUP CWT (NYSE)

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

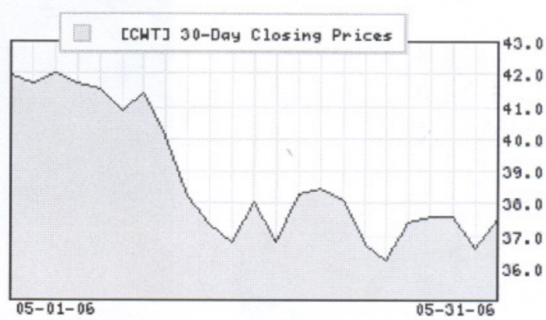
General Information

CALIF WATER SVC
1720 North First Street
San Jose, CA 95112
Phone: 408 367-8200
Fax: 408 437-9185
Web: www.calwatergroup.com
Email: klichtenberg@calwater.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/06
Next EPS Date	-

Price and Volume Information

Zacks Rank	4
Yesterday's Close	37.53
52 Week High	45.36
52 Week Low	32.64
Beta	0.32
20 Day Moving Average	76,805
Target Price Consensus	42.67



% Price Change

4 Week	-10.35
12 Week	-13.88
YTD	-1.62

% Price Change Relative to S&P 500

4 Week	-8.59
12 Week	-14.01
YTD	-4.07

Share Information

Shares Outstanding (millions)	18.41
Market Capitalization (millions)	692.21
Short Ratio	14.88
Last Split Date	01/26/1998

Dividend Information

Dividend Yield	3.06%
Annual Dividend	$1.15
Payout Ratio	0.00
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	02/02/2006 / $0.29

EPS Information

Current Quarter EPS Consensus Estimate	0.58
Current Year EPS Consensus Estimate	1.66
Estimated Long-Term EPS Growth Rate	9.00

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.33
30 Days Ago	2.40
60 Days Ago	2.40

Next EPS Report Date	- 90 Days Ago	2.40

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	22.68	vs. Previous Year	33.33%	vs. Previous Year	8.15%
Trailing 12 Months:	26.67	vs. Previous Quarter	-87.50%	vs. Previous Quarter:	-16.22%
PEG Ratio	2.52				
Price Ratios		**ROE**		**ROA**	
Price/Book	2.39	03/31/06	9.41	03/31/06	2.78
Price/Cash Flow	12.36	12/31/05	9.41	12/31/05	2.80
Price / Sales	2.13	09/30/05	8.74	09/30/05	2.62
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	0.54	03/31/06	0.49	03/31/06	8.41
12/31/05	0.68	12/31/05	0.63	12/31/05	8.49
09/30/05	0.92	09/30/05	0.87	09/30/05	8.05
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	8.43	03/31/06	8.43	03/31/06	15.74
12/31/05	8.49	12/31/05	8.49	12/31/05	15.98
09/30/05	13.43	09/30/05	13.43	09/30/05	15.99
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	55.23	03/31/06	0.94	03/31/06	48.28
12/31/05	56.99	12/31/05	1.90	12/31/05	65.53
09/30/05	12.55	09/30/05	0.93	09/30/05	47.99

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Zacks.com Quotes and Research

SOUTHWEST WTR CO SWWC (NASDAQ)

Southwest Water Company provides a broad range of utility and utility management services and serves people from coast to coast. Through its various subsidiaries, Southwest operates and manages water and wastewater treatment facilities along with providing utility submetering and billing and collection services.

General Information

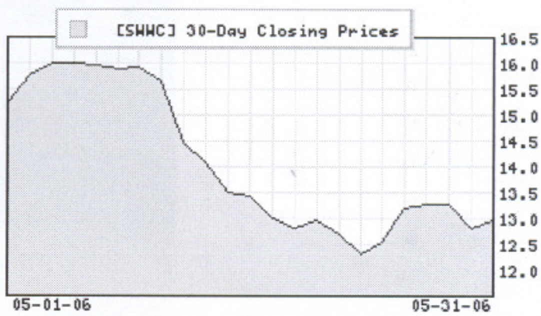
SOUTHWEST WATER
One Wilshire Building 624 South Grand Avenue
Suite 2900
Los Angeles, CA 90017-3782
Phone: 213 929-1800
Fax: 213 929-1888
Web: www.southwestwater.com
Email: swwc@swwc.com

Industry	UTIL-WATER SPLY
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	03/31/06
Next EPS Date	08/08/2006

Price and Volume Information

Zacks Rank	4
Yesterday's Close	12.95
52 Week High	19.03
52 Week Low	10.13
Beta	0.30
20 Day Moving Average	140,018
Target Price Consensus	N/A



% Price Change

4 Week	-12.86
12 Week	-25.18
YTD	-7.20

% Price Change Relative to S&P 500

4 Week	-11.16
12 Week	-25.29
YTD	-9.51

Share Information

Shares Outstanding (millions)	22.33
Market Capitalization (millions)	296.49
Short Ratio	10.69
Last Split Date	12/27/2002

Dividend Information

Dividend Yield	1.58%
Annual Dividend	$0.21
Payout Ratio	0.56
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	03/28/2006 / $0.05

EPS Information

Current Quarter EPS Consensus Estimate	0.13
Current Year EPS Consensus Estimate	0.38
Estimated Long-Term EPS Growth Rate	5.50

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.20
30 Days Ago	2.00
60 Days Ago	2.00

Next EPS Report Date	08/08/2006	90 Days Ago	2.00

Fundamental Ratios

P/E		**EPS Growth**		**Sales Growth**	
Current FY Estimate:	34.95	vs. Previous Year	414.99%	vs. Previous Year	8.40%
Trailing 12 Months:	35.35	vs. Previous Quarter	-50.00%	vs. Previous Quarter:	-2.30%
PEG Ratio	6.35				
Price Ratios		**ROE**		**ROA**	
Price/Book	2.00	03/31/06	5.97	03/31/06	1.89
Price/Cash Flow	16.36	12/31/05	5.46	12/31/05	1.69
Price / Sales	1.42	09/30/05	4.26	09/30/05	1.30
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	1.27	03/31/06	1.27	03/31/06	3.93
12/31/05	1.18	12/31/05	1.18	12/31/05	3.51
09/30/05	1.33	09/30/05	1.33	09/30/05	2.70
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	6.15	03/31/06	6.15	03/31/06	6.65
12/31/05	5.59	12/31/05	5.59	12/31/05	6.73
09/30/05	4.13	09/30/05	4.13	09/30/05	6.39
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	-	03/31/06	0.83	03/31/06	45.14
12/31/05	24.69	12/31/05	0.81	12/31/05	44.74
09/30/05	24.61	09/30/05	0.94	09/30/05	48.44

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AQUA AMERICA INC WTR (NYSE)

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

General Information

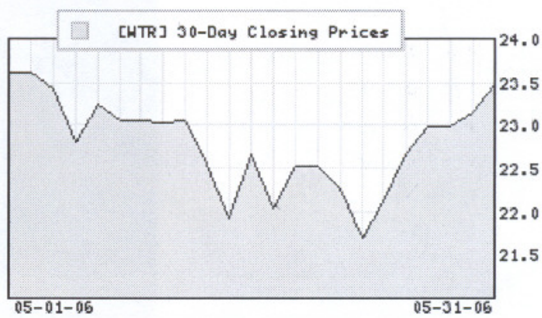
AQUA AMER INC
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Phone: 610 527-8000
Fax: 610 519-0989
Web: www.aquaamerica.com
Email: investorrelations@aquaamerica.com

Industry	UTIL-WATER SPLY
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	03/31/06
Next EPS Date	08/09/2006

Price and Volume Information

Zacks Rank	4
Yesterday's Close	23.46
52 Week High	29.59
52 Week Low	20.42
Beta	0.13
20 Day Moving Average	824,210
Target Price Consensus	28



% Price Change

4 Week	-2.63
12 Week	-22.15
YTD	-15.82

% Price Change Relative to S&P 500

4 Week	-0.72
12 Week	-22.27
YTD	-17.92

Share Information

Shares Outstanding (millions)	129.21
Market Capitalization (millions)	2,969.13
Short Ratio	13.31
Last Split Date	12/03/2001

Dividend Information

Dividend Yield	1.86%
Annual Dividend	$0.43
Payout Ratio	0.62
Change in Payout Ratio	0.02
Last Dividend Payout / Amount	02/13/2006 / $0.11

EPS Information

Current Quarter EPS Consensus Estimate	0.16
Current Year EPS Consensus Estimate	0.74
Estimated Long-Term EPS Growth Rate	9.00
Next EPS Report Date	08/09/2006

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.25
30 Days Ago	2.43
60 Days Ago	2.43
90 Days Ago	2.43

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	31.19	vs. Previous Year	-13.33%	vs. Previous Year	3.47%
Trailing 12 Months:	33.30	vs. Previous Quarter	-23.53%	vs. Previous Quarter:	-4.03%
PEG Ratio	3.47				
Price Ratios		**ROE**		**ROA**	
Price/Book	3.60	03/31/06	11.14	03/31/06	3.45
Price/Cash Flow	18.88	12/31/05	11.67	12/31/05	3.66
Price / Sales	5.93	09/30/05	11.95	09/30/05	3.78
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	0.47	03/31/06	0.44	03/31/06	17.74
12/31/05	0.34	12/31/05	0.31	12/31/05	18.35
09/30/05	0.39	09/30/05	0.36	09/30/05	18.70
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	28.93	03/31/06	28.93	03/31/06	6.38
12/31/05	29.81	12/31/05	29.81	12/31/05	6.31
09/30/05	30.80	09/30/05	30.80	09/30/05	6.09
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	6.25	03/31/06	1.11	03/31/06	52.69
12/31/05	0.00	12/31/05	1.08	12/31/05	52.01
09/30/05	0.00	09/30/05	1.10	09/30/05	52.32

Zacks.com Quotes and Research

AGL RES INC ATG (NYSE)

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.

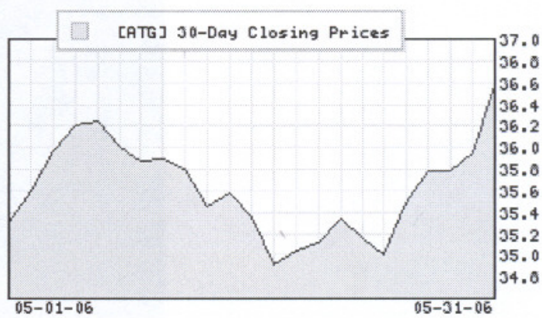
General Information

AGL RESOURCES
Ten Peachtree Place NE
Atlanta, GA 30309
Phone: 404 584-4000
Fax: 404 584-3580
Web: www.aglresources.com
Email: scave@aglresources.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	03/31/06
Next EPS Date	07/28/2006

Price and Volume Information

Zacks Rank	3
Yesterday's Close	36.57
52 Week High	39.10
52 Week Low	32.58
Beta	0.52
20 Day Moving Average	400,445
Target Price Consensus	39.93



% Price Change

4 Week	1.36
12 Week	1.24
YTD	2.82

% Price Change Relative to S&P 500

4 Week	3.34
12 Week	1.09
YTD	0.26

Share Information

Shares Outstanding (millions)	77.95
Market Capitalization (millions)	2,789.90
Short Ratio	5.18
Last Split Date	12/04/1995

Dividend Information

Dividend Yield	4.14%
Annual Dividend	$1.48
Payout Ratio	0.54
Change in Payout Ratio	-0.04
Last Dividend Payout / Amount	02/15/2006 / $0.37

EPS Information

Current Quarter EPS Consensus Estimate	0.33
Current Year EPS Consensus Estimate	2.66
Estimated Long-Term EPS Growth Rate	4.50
Next EPS Report Date	07/28/2006

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.94
30 Days Ago	1.94
60 Days Ago	1.94
90 Days Ago	1.94

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.43	vs. Previous Year	23.68%	vs. Previous Year	14.80%
Trailing 12 Months:	13.02	vs. Previous Quarter	65.88%	vs. Previous Quarter:	5.44%
PEG Ratio	2.98				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.76	03/31/06	14.35	03/31/06	3.66
Price/Cash Flow	8.52	12/31/05	13.19	12/31/05	3.32
Price / Sales	0.97	09/30/05	12.06	09/30/05	3.06
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	1.00	03/31/06	0.70	03/31/06	7.51
12/31/05	1.05	12/31/05	0.77	12/31/05	7.07
09/30/05	1.03	09/30/05	0.74	09/30/05	7.32
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	12.01	03/31/06	12.01	03/31/06	20.33
12/31/05	11.40	12/31/05	11.40	12/31/05	19.30
09/30/05	11.78	09/30/05	11.78	09/30/05	18.75
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	3.65	03/31/06	0.92	03/31/06	48.47
12/31/05	3.96	12/31/05	1.08	12/31/05	52.44
09/30/05	3.77	09/30/05	1.11	09/30/05	53.16

Zacks.com Quotes and Research

CASCADE NAT GAS CORP CGC (NYSE)

Cascade Natural Gas Corporation's principal business is the distribution of natural gas.

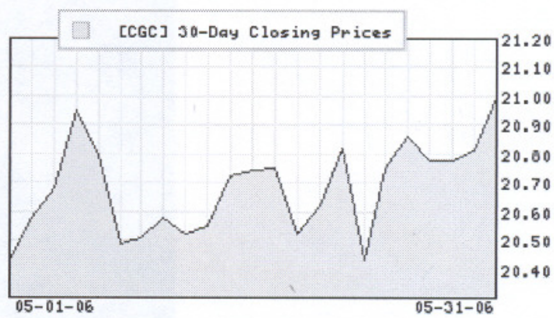
General Information

CASCADE NAT GAS
222 Fairview Avenue North
Seattle, WA 98109
Phone: 206 624-3900
Fax: 206 624-7215
Web: www.cngc.com
Email: investorinfo@cngc.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	03/31/06
Next EPS Date	07/24/2006

Price and Volume Information

Zacks Rank	2
Yesterday's Close	21.00
52 Week High	22.75
52 Week Low	19.00
Beta	0.24
20 Day Moving Average	65,100
Target Price Consensus	N/A



% Price Change

4 Week	1.71
12 Week	7.56
YTD	6.51

% Price Change Relative to S&P 500

4 Week	3.70
12 Week	7.40
YTD	3.86

Share Information

Shares Outstanding (millions)	11.44
Market Capitalization (millions)	237.79
Short Ratio	8.99
Last Split Date	12/21/1993

Dividend Information

Dividend Yield	4.62%
Annual Dividend	$0.96
Payout Ratio	0.91
Change in Payout Ratio	-0.04
Last Dividend Payout / Amount	04/26/2006 / $0.24

EPS Information

Current Quarter EPS Consensus Estimate	-0.09
Current Year EPS Consensus Estimate	1.07
Estimated Long-Term EPS Growth Rate	-
Next EPS Report Date	07/24/2006

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	3.00
30 Days Ago	3.00
60 Days Ago	3.00
90 Days Ago	3.00

Fundamental Ratios

P/E **EPS Growth** **Sales Growth**

Current FY Estimate:	19.42	vs. Previous Year	20.00%	vs. Previous Year	38.30%
Trailing 12 Months:	19.60	vs. Previous Quarter	11.43%	vs. Previous Quarter:	2.62%
PEG Ratio	-				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.82	03/31/06	9.85	03/31/06	2.40
Price/Cash Flow	7.12	12/31/05	8.58	12/31/05	2.10
Price / Sales	0.56	09/30/05	7.88	09/30/05	2.05
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	1.12	03/31/06	1.06	03/31/06	2.89
12/31/05	0.99	12/31/05	0.93	12/31/05	2.80
09/30/05	1.00	09/30/05	0.90	09/30/05	2.99
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	4.67	03/31/06	4.67	03/31/06	11.43
12/31/05	4.52	12/31/05	4.52	12/31/05	10.88
09/30/05	4.55	09/30/05	4.55	09/30/05	10.42
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	30.27	03/31/06	1.27	03/31/06	55.88
12/31/05	26.66	12/31/05	1.33	12/31/05	57.12
09/30/05	20.55	09/30/05	1.47	09/30/05	59.44

ZACKS
PROFIT FROM THE PROS

Zacks.com Quotes and Research

LACLEDE GROUP INC LG (NYSE)

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

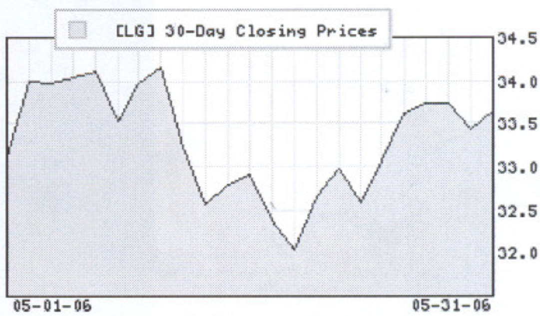
General Information

LACLEDE GRP INC
720 Olive Street
St. Louis, MO 63101
Phone: 314-342-0500
Fax: -
Web: www.thelacledegroup.com
Email: investorservices@lacledegas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	03/31/06
Next EPS Date	07/27/2006

Price and Volume Information

Zacks Rank	3
Yesterday's Close	33.65
52 Week High	35.02
52 Week Low	28.69
Beta	0.33
20 Day Moving Average	94,065
Target Price Consensus	36



% Price Change

4 Week	1.90
12 Week	2.74
YTD	15.51

% Price Change Relative to S&P 500

4 Week	3.90
12 Week	2.59
YTD	12.63

Share Information

Shares Outstanding (millions)	21.28
Market Capitalization (millions)	718.05
Short Ratio	12.30
Last Split Date	03/08/1994

Dividend Information

Dividend Yield	4.21%
Annual Dividend	$1.42
Payout Ratio	0.61
Change in Payout Ratio	-0.22
Last Dividend Payout / Amount	03/08/2006 / $0.35

EPS Information

Current Quarter EPS Consensus Estimate	0.25
Current Year EPS Consensus Estimate	2.24
Estimated Long-Term EPS Growth Rate	-
Next EPS Report Date	07/27/2006

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.33
30 Days Ago	2.33
60 Days Ago	2.33
90 Days Ago	2.33

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.10	vs. Previous Year	-0.94%	vs. Previous Year	22.93%
Trailing 12 Months:	14.48	vs. Previous Quarter	-14.63%	vs. Previous Quarter:	2.84%
PEG Ratio	-				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.75	03/31/06	12.78	03/31/06	3.43
Price/Cash Flow	10.69	12/31/05	13.02	12/31/05	3.57
Price / Sales	0.36	09/30/05	10.69	09/30/05	3.00
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	1.01	03/31/06	0.88	03/31/06	2.51
12/31/05	1.01	12/31/05	0.73	12/31/05	2.69
09/30/05	1.16	09/30/05	0.66	09/30/05	2.51
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	3.63	03/31/06	3.63	03/31/06	19.28
12/31/05	4.01	12/31/05	4.01	12/31/05	18.47
09/30/05	3.81	09/30/05	3.81	09/30/05	17.33
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	13.19	03/31/06	0.83	03/31/06	45.30
12/31/05	12.21	12/31/05	0.87	12/31/05	46.38
09/30/05	10.94	09/30/05	0.93	09/30/05	48.09

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NORTHWEST NAT GAS CO NWN (NYSE)

NW Natural is principally engaged in the distribution of natural gas.The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.

General Information

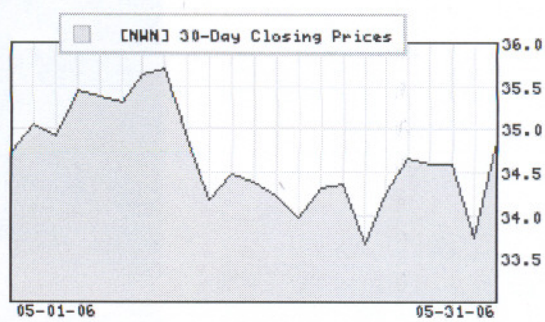
NORTHWEST NAT G
220 N.W. Second Avenue
Portland, OR 97209
Phone: 503 226-4211
Fax: 503 273-4824
Web: www.nwnatural.com
Email: investorinformation@nwnatural.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	03/31/06
Next EPS Date	08/09/2006

Price and Volume Information

Zacks Rank	2
Yesterday's Close	34.88
52 Week High	39.50
52 Week Low	33.27
Beta	0.10
20 Day Moving Average	138,765
Target Price Consensus	39



% Price Change

4 Week	-0.43
12 Week	3.01
YTD	1.20

% Price Change Relative to S&P 500

4 Week	1.51
12 Week	2.85
YTD	-1.32

Share Information

Shares Outstanding (millions)	27.59
Market Capitalization (millions)	954.27
Short Ratio	9.12
Last Split Date	09/09/1996

Dividend Information

Dividend Yield	3.99%
Annual Dividend	$1.38
Payout Ratio	0.64
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	04/26/2006 / $0.34

EPS Information

Current Quarter EPS Consensus Estimate	0.04
Current Year EPS Consensus Estimate	2.25
Estimated Long-Term EPS Growth Rate	5.30

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.57
30 Days Ago	2.57
60 Days Ago	2.57

Next EPS Report Date		08/09/2006 90 Days Ago			2.38

Fundamental Ratios

P/E		**EPS Growth**		**Sales Growth**	
Current FY Estimate:	15.39	vs. Previous Year	3.50%	vs. Previous Year	-59.37%
Trailing 12 Months:	16.16	vs. Previous Quarter	59.14%	vs. Previous Quarter:	20.16%
PEG Ratio	2.90				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.54	03/31/06	10.00	03/31/06	3.08
Price/Cash Flow	7.96	12/31/05	9.89	12/31/05	3.06
Price / Sales	2.23	09/30/05	10.17	09/30/05	3.25
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	1.02	03/31/06	0.84	03/31/06	13.83
12/31/05	0.99	12/31/05	0.73	12/31/05	9.50
09/30/05	0.94	09/30/05	0.49	09/30/05	7.70
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	21.63	03/31/06	21.63	03/31/06	22.43
12/31/05	9.98	12/31/05	9.98	12/31/05	21.30
09/30/05	11.86	09/30/05	11.86	09/30/05	20.69
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	9.69	03/31/06	0.81	03/31/06	44.76
12/31/05	8.93	12/31/05	0.89	12/31/05	47.05
09/30/05	8.13	09/30/05	0.91	09/30/05	47.76

ZACKS PROFIT FROM THE PROS

Zacks.com Quotes and Research

PEOPLES ENERGY CORP PGL (NYSE)

People's Energy Corporation is solely a holding company and does not engage directly in any business of its own. Income is derived principally from the company's utility subsidiaries, The Peoples Gas Light and Coke Company and North Shore Gas Company. The company also derives income from its other subsidiaries, Peoples District Energy Corporation, Peoples Energy Services Corporation, Peoples Energy Resources Corp., Peoples NGV Corp., and Peoples Energy Ventures Corporation.

General Information

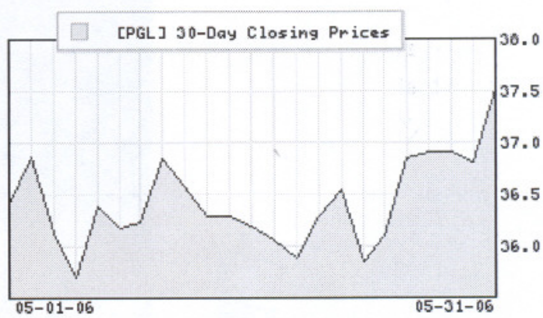
PEOPL ENERGY CP
130 East Randolph Drive
24th Floor
Chicago, IL 60601-6207
Phone: 312 240-4000
Fax: 312 240-7534
Web: www.peoplesenergy.com
Email: pecstock@pecorp.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	03/31/06
Next EPS Date	07/28/2006

Price and Volume Information

Zacks Rank	5
Yesterday's Close	37.52
52 Week High	45.42
52 Week Low	35.04
Beta	0.33
20 Day Moving Average	353,910
Target Price Consensus	38



% Price Change

4 Week	1.40
12 Week	1.68
YTD	5.25

% Price Change Relative to S&P 500

4 Week	3.38
12 Week	1.53
YTD	2.63

Share Information

Shares Outstanding (millions)	38.35
Market Capitalization (millions)	1,415.43
Short Ratio	17.94
Last Split Date	N/A

Dividend Information

Dividend Yield	5.91%
Annual Dividend	$2.18
Payout Ratio	0.90
Change in Payout Ratio	0.12
Last Dividend Payout / Amount	03/20/2006 / $0.55

EPS Information

Current Quarter EPS Consensus Estimate	0.06
Current Year EPS Consensus Estimate	1.76
Estimated Long-Term EPS Growth Rate	4.00

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	3.00
30 Days Ago	3.00
60 Days Ago	3.00

Next EPS Report Date	07/28/2006	90 Days Ago	3.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	20.97	vs. Previous Year	-18.25%	vs. Previous Year	14.91%
Trailing 12 Months:	15.25	vs. Previous Quarter	20.43%	vs. Previous Quarter:	12.13%
PEG Ratio	5.24				
Price Ratios		**ROE**		**ROA**	
Price/Book	2.44	03/31/06	12.14	03/31/06	2.88
Price/Cash Flow	6.62	12/31/05	12.17	12/31/05	2.96
Price / Sales	0.46	09/30/05	11.11	09/30/05	2.86
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	0.92	03/31/06	0.86	03/31/06	3.03
12/31/05	1.26	12/31/05	1.03	12/31/05	3.51
09/30/05	1.00	09/30/05	0.72	09/30/05	3.68
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	-0.55	03/31/06	-0.55	03/31/06	15.13
12/31/05	1.77	12/31/05	1.77	12/31/05	20.96
09/30/05	4.72	09/30/05	4.72	09/30/05	20.98
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	11.74	03/31/06	0.87	03/31/06	46.38
12/31/05	12.12	12/31/05	1.12	12/31/05	52.74
09/30/05	10.88	09/30/05	1.12	09/30/05	52.81

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SOUTH JERSEY INDS INC SJI (NYSE)

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

General Information

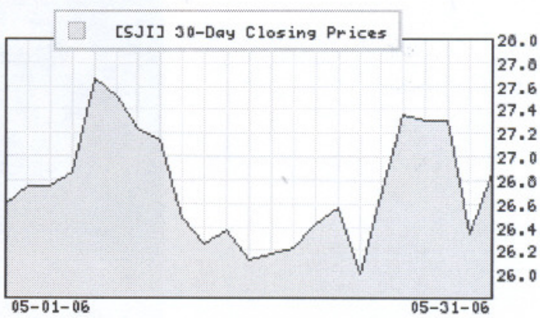
SOUTH JERSEY IN
1 South Jersey Plaza
Folsom, NJ 08037
Phone: 609 561-9000
Fax: 609-704-1608
Web: www.sjindustries.com
Email: investorrelations@sjindustries.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	03/31/06
Next EPS Date	08/10/2006

Price and Volume Information

Zacks Rank	3
Yesterday's Close	26.86
52 Week High	32.00
52 Week Low	26.00
Beta	0.30
20 Day Moving Average	127,355
Target Price Consensus	31



% Price Change

4 Week	2.67
12 Week	-3.40
YTD	-6.31

% Price Change Relative to S&P 500

4 Week	4.68
12 Week	-3.54
YTD	-8.65

Share Information

Shares Outstanding (millions)	29.02
Market Capitalization (millions)	792.14
Short Ratio	4.78
Last Split Date	03/04/1993

Dividend Information

Dividend Yield	3.30%
Annual Dividend	$0.90
Payout Ratio	0.53
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	03/08/2006 / $0.22

EPS Information

Current Quarter EPS Consensus Estimate	0.28
Current Year EPS Consensus Estimate	1.85
Estimated Long-Term EPS Growth Rate	5.70

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.75
30 Days Ago	1.75
60 Days Ago	1.75

Next EPS Report Date	08/10/2006	90 Days Ago	2.67

Fundamental Ratios

P/E		**EPS Growth**		**Sales Growth**	
Current FY Estimate:	14.80	vs. Previous Year	-3.12%	vs. Previous Year	11.08%
Trailing 12 Months:	16.15	vs. Previous Quarter	132.50%	vs. Previous Quarter:	29.70%
PEG Ratio	2.61				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.89	03/31/06	12.61	03/31/06	3.65
Price/Cash Flow	10.39	12/31/05	13.00	12/31/05	3.78
Price / Sales	0.83	09/30/05	14.16	09/30/05	4.14
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	0.94	03/31/06	0.73	03/31/06	5.09
12/31/05	0.89	12/31/05	0.59	12/31/05	5.28
09/30/05	0.91	09/30/05	0.52	09/30/05	5.79
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	8.45	03/31/06	8.45	03/31/06	14.46
12/31/05	8.84	12/31/05	8.84	12/31/05	13.63
09/30/05	9.81	09/30/05	9.81	09/30/05	13.03
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	7.60	03/31/06	0.80	03/31/06	44.46
12/31/05	8.25	12/31/05	0.82	12/31/05	44.95
09/30/05	8.66	09/30/05	0.87	09/30/05	46.45

ZACKS
PROFIT FROM THE PROS

Zacks.com Quotes and Research

SOUTHWEST GAS CORP SWX (NYSE)

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing,transporting, and distributing natural gas in portions of Arizona, Nevada,and California. The Company also engaged in financial services activities,through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.

General Information

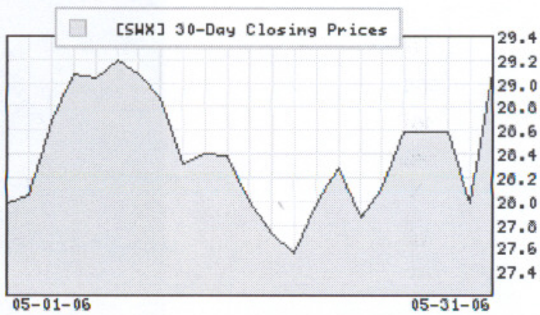
SOUTHWEST GAS
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, NV 89193-8510
Phone: 702 876-7237
Fax: 702 873-3820
Web: www.swgas.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	03/31/06
Next EPS Date	08/08/2006

Price and Volume Information

Zacks Rank	3
Yesterday's Close	29.11
52 Week High	29.19
52 Week Low	24.97
Beta	0.27
20 Day Moving Average	178,875
Target Price Consensus	31.5



% Price Change

4 Week	2.14
12 Week	1.35
YTD	8.26

% Price Change Relative to S&P 500

4 Week	4.14
12 Week	1.20
YTD	5.56

Share Information

Shares Outstanding (millions)	39.56
Market Capitalization (millions)	1,130.54
Short Ratio	8.90
Last Split Date	N/A

Dividend Information

Dividend Yield	2.87%
Annual Dividend	$0.82
Payout Ratio	0.54
Change in Payout Ratio	-0.09
Last Dividend Payout / Amount	02/13/2006 / $0.20

EPS Information

Current Quarter EPS Consensus Estimate	0.05
Current Year EPS Consensus Estimate	1.93
Estimated Long-Term EPS Growth Rate	6.00
Next EPS Report Date	08/08/2006

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.67
30 Days Ago	3.00
60 Days Ago	3.00
90 Days Ago	3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.81	vs. Previous Year	26.14%	vs. Previous Year	24.69%
Trailing 12 Months:	18.68	vs. Previous Quarter	20.65%	vs. Previous Quarter:	36.21%
PEG Ratio	2.47				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.42	03/31/06	8.04	03/31/06	2.02
Price/Cash Flow	5.42	12/31/05	6.68	12/31/05	1.69
Price / Sales	0.61	09/30/05	7.31	09/30/05	1.87
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	0.97	03/31/06	0.97	03/31/06	3.32
12/31/05	0.87	12/31/05	0.87	12/31/05	2.92
09/30/05	0.76	09/30/05	0.76	09/30/05	3.22
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	4.59	03/31/06	4.59	03/31/06	20.19
12/31/05	3.99	12/31/05	3.99	12/31/05	19.20
09/30/05	5.05	09/30/05	5.05	09/30/05	19.61
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	-	03/31/06	1.66	03/31/06	62.47
12/31/05	-	12/31/05	1.76	12/31/05	63.82
09/30/05	-	09/30/05	1.66	09/30/05	62.44

Zacks.com Quotes and Research

WGL HLDGS INC WGL (NYSE)

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

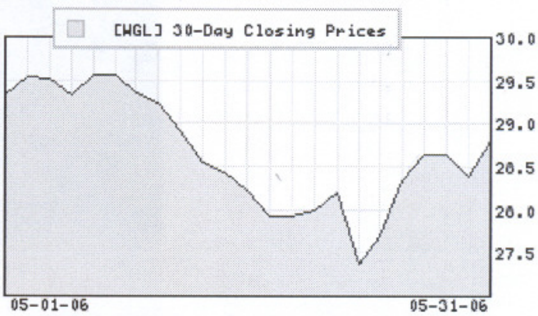
General Information

WGL HLDGS INC
101 Constitution Ave, N.W
Washington, DC 20080
Phone: 703 750-2000
Fax: -
Web: www.wglholdings.com
Email: apennix@washgas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	03/31/06
Next EPS Date	08/07/2006

Price and Volume Information

Zacks Rank	3
Yesterday's Close	28.80
52 Week High	34.52
52 Week Low	27.38
Beta	0.27
20 Day Moving Average	256,490
Target Price Consensus	31.75



% Price Change

4 Week	-2.32
12 Week	-4.72
YTD	-4.69

% Price Change Relative to S&P 500

4 Week	-0.41
12 Week	-4.86
YTD	-7.06

Share Information

Shares Outstanding (millions)	48.76
Market Capitalization (millions)	1,397.03
Short Ratio	19.49
Last Split Date	05/02/1995

Dividend Information

Dividend Yield	4.71%
Annual Dividend	$1.35
Payout Ratio	0.81
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	04/06/2006 / $0.34

EPS Information

Current Quarter EPS Consensus Estimate	-0.08
Current Year EPS Consensus Estimate	1.80
Estimated Long-Term EPS Growth Rate	4.00

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	3.00
30 Days Ago	3.00
60 Days Ago	3.50

Next EPS Report Date	08/07/2006	90 Days Ago	3.00

Fundamental Ratios

P/E		**EPS Growth**		**Sales Growth**	
Current FY Estimate:	15.90	vs. Previous Year	-24.18%	vs. Previous Year	-8.97%
Trailing 12 Months:	17.36	vs. Previous Quarter	27.47%	vs. Previous Quarter:	-57.51%
PEG Ratio	3.97				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.45	03/31/06	8.72	03/31/06	2.87
Price/Cash Flow	7.26	12/31/05	10.73	12/31/05	3.58
Price / Sales	1.11	09/30/05	10.71	09/30/05	3.69
Current Ratio		**Quick Ratio**		**Operating Margin**	
03/31/06	1.15	03/31/06	0.88	03/31/06	6.43
12/31/05	0.97	12/31/05	0.66	12/31/05	7.74
09/30/05	1.08	09/30/05	0.42	09/30/05	10.23
Net Margin		**Pre-Tax Margin**		**Book Value**	
03/31/06	8.19	03/31/06	8.19	03/31/06	19.76
12/31/05	11.03	12/31/05	11.03	12/31/05	18.91
09/30/05	7.61	09/30/05	7.61	09/30/05	18.36
Inventory Turnover		**Debt-to-Equity**		**Debt to Captial**	
03/31/06	3.63	03/31/06	0.60	03/31/06	36.96
12/31/05	5.20	12/31/05	0.61	12/31/05	37.10
09/30/05	5.00	09/30/05	0.65	09/30/05	38.78

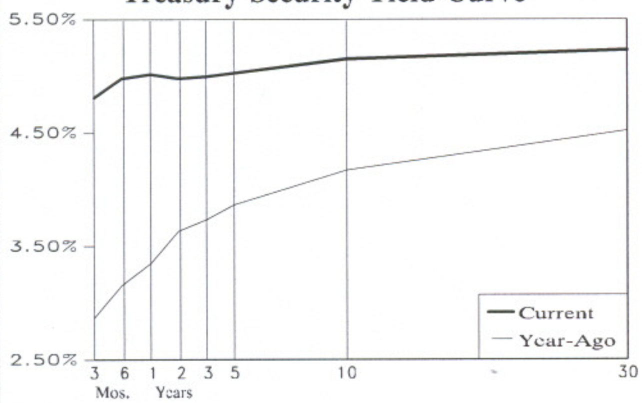
ATTACHMENT E

Selected Yields

	Recent (5/11/06)	3 Months Ago (2/09/06)	Year Ago (5/12/05)
TAXABLE			
Market Rates			
Discount Rate	6.00	5.50	4.00
Federal Funds	5.00	4.50	3.00
Prime Rate	8.00	7.50	6.00
30-day CP (A1/P1)	4.99	4.50	3.02
3-month LIBOR	5.17	4.74	3.27
Bank CDs			
6-month	3.06	2.87	2.22
1-year	3.87	3.44	2.74
5-year	4.03	3.97	3.81
U.S. Treasury Securities			
3-month	4.81	4.51	2.87
6-month	4.98	4.65	3.16
1-year	5.02	4.66	3.35
5-year	5.03	4.54	3.87
10-year	5.15	4.54	4.17
10-year (inflation-protected)	2.39	2.04	1.60
30-year	5.23	4.65	4.52
30-year Zero	4.97	4.56	4.46

	Recent (5/11/06)	3 Months Ago (2/09/06)	Year Ago (5/12/05)
Mortgage-Backed Securities			
GNMA 6.5%	6.03	5.34	4.93
FHLMC 6.5% (Gold)	6.18	5.88	5.08
FNMA 6.5%	6.17	5.77	4.88
FNMA ARM	4.81	4.47	3.48
Corporate Bonds			
Financial (10-year) A	6.08	5.43	4.90
Industrial (25/30-year) A	6.31	5.71	5.42
Utility (25/30-year) A	6.33	5.69	5.32
Utility (25/30-year) Baa/BBB	6.67	6.05	5.69
Foreign Bonds (10-Year)			
Canada	4.46	4.21	4.10
Germany	4.07	3.48	3.33
Japan	1.97	1.57	1.29
United Kingdom	4.73	4.16	4.41
Preferred Stocks			
Utility A	7.25	7.03	6.95
Financial A	6.33	6.22	5.95
Financial Adjustable A	N/A	N/A	5.51

Treasury Security Yield Curve



	Recent (5/11/06)	3 Months Ago (2/09/06)	Year Ago (5/12/05)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.63	4.42	4.35
25-Bond Index (Revs)	5.25	5.14	4.87
General Obligation Bonds (GOs)			
1-year Aaa	3.60	3.25	2.70
1-year A	3.72	3.37	2.87
5-year Aaa	3.68	3.48	3.05
5-year A	3.97	3.76	3.33
10-year Aaa	4.15	3.84	3.58
10-year A	4.51	4.16	3.91
25/30-year Aaa	4.57	4.37	4.38
25/30-year A	4.84	4.64	4.62
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.60	4.37	4.42
Electric AA	4.62	4.47	4.52
Housing AA	4.75	4.64	4.75
Hospital AA	4.95	4.89	4.58
Toll Road Aaa	4.80	4.58	4.62

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	5/10/06	4/26/06	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	2153	1461	692	1678	1694	1730
Borrowed Reserves	156	103	53	160	147	221
Net Free/Borrowed Reserves	1997	1358	639	1518	1546	1509

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	5/1/06	4/24/06	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1388.3	1403.3	-15.0	-5.7%	2.0%	1.9%
M2 (M1+savings+small time deposits)	6794.8	6810.4	-15.6	3.7%	5.0%	4.7%

ATTACHMENT F

Infrastructure costs in the Water Utility Industry will continue to rise over the long term. Larger companies will acquire smaller ones in an effort to achieve economies of scale.

Foreign companies had been buying a number of U.S. water utilities, but that trend appears to be waning.

Water utility stocks are ranked to underperform the market over the coming 12 months; however, conservative investors can find attractive risk-adjusted choices here.

The Need For Consolidation

Long-term trends in the Water Utility Industry indicate that infrastructure costs will steadily rise. Many of the facilities and pipes that now purify and transport drinking water were built about 100 years ago. Ongoing upgrading and replacement are necessary for these old systems to remain in compliance with rules laid out by the Environmental Protection Agency (EPA). The cost of fixing and upgrading these systems is significantly higher than in the past (even adjusting for inflation) because more-expensive materials need to be used for modern construction. Moreover, transportation costs are much higher and should continue to rise, as nearby sources of water are depleted and farther-away bodies of water must be used. Water is quite difficult and expensive to move because it is heavy and cannot be compressed. Also adding to industry costs is the ongoing issuance of guidelines from the EPA that typically require water utilities to comply with more-stringent water-purity standards. Industry sources estimate that about $140 billion will be needed over the next 20 years to fund necessary water-system infrastructure improvements.

Small and mid-sized water companies usually welcome large-scale suitors. Smaller utilities generally lack the funds needed for long-term structural improvements, and might risk being out of compliance with local and federal laws at some point down the road. In an effort to prevent this unpleasant scenario from happening, many of these smaller companies welcome larger utilities that have the capital resources to remain in compliance with the law. The larger company gains greater geographic diversity from its acquisitions, which helps lessen its susceptibility to weather fluctuations that might cause volatility in earnings. Acquirers also benefit from economies of scale in which costs are generally reduced. Too, the regulatory-intensive nature of the Water Utility Industry means that some specific local governments might be more uncooperative with the utilities than other comparable local officials. A larger territory lessens the impact of a particularly onerous regulatory atmosphere.

INDUSTRY TIMELINESS: 81 (of 92)

Acquisition Update

Foreign companies have purchased a large number of domestic water utilities over the past year. These global water companies are attracted to this country's relatively safe political climate and its trend towards the privatization of municipal water and wastewater systems. Currently, there is concern among investors that the large premiums paid for U.S. takeover targets, which approached three times book value, will become more infrequent. British utilities are having regulatory difficulties at home that stand to weaken their designs on the U.S. market. Consequently, there appear to be fewer bidders in the market.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorized the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities typically spend about 15% to 50% of their annual capital outlays in efforts to comply with SDWA guidelines. These companies must also stay in compliance with the Clean Water Act, and numerous state and local laws. At present, the EPA is considering lowering the allowable level of arsenic in drinking water from 50 parts per billion (ppb) to 5 ppb. This measure would be controversial because it would be lower than the standard of the World Health Organization (10 ppb) and would potentially cost domestic water companies billions of dollars.

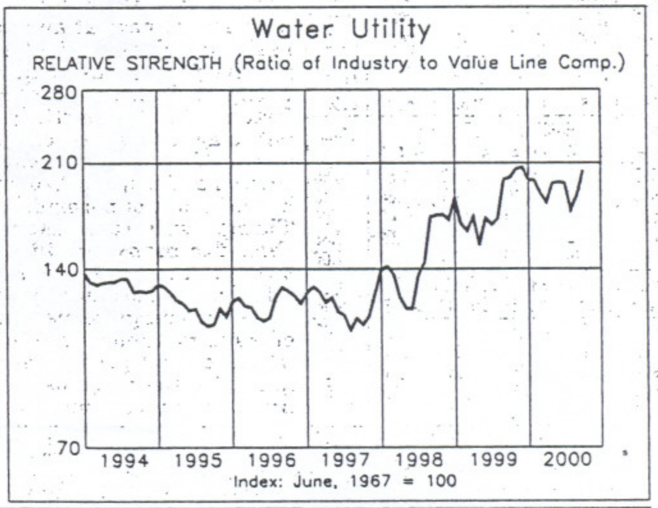
Investment Advice

Most of the water utility stocks that are covered in this review are not timely for the coming six to 12 months. Nonetheless, favorable Safety ranks among the group make some of these issues appealing for risk-averse investors seeking decent dividend yields.

Joseph Espaillat

Composite Statistics: Water Utility Industry

1996	1997	1998	1999	2000	2001		03-05
1793.9	1924.7	1994.2	2422.6	*2550*	*2750*	Revenues ($mill)	*3500*
214.4	2.9.2	265.6	295.3	*315*	*335*	Net Profit ($mill)	*415*
39.2%	37.8%	37.0%	38.2%	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
7.0%	6.3%	7.5%	8.7%	*6.0%*	*6.0%*	AFUDC % to Net Profit	*6.0%*
55.7%	56.6%	56.9%	55.9%	*53.0%*	*52.0%*	Long-Term Debt Ratio	*50.0%*
40.0%	39.6%	39.7%	42.0%	*45.0%*	*46.0%*	Common Equity Ratio	*48.0%*
5271.8	5703.3	6188.6	7223.7	*7300*	*7900*	Total Capital ($mill)	*9300*
6377.2	6785.5	7361.9	8961.3	*8700*	*9300*	Net Plant ($mill)	*9700*
6.0%	6.2%	6.2%	6.0%	*6.5%*	*7.0%*	Return on Total Cap'l	*7.5%*
9.2%	9.7%	10.0%	9.3%	*10.5%*	*10.5%*	Return on Shr. Equity	*11.5%*
9.7%	10.2%	10.4%	9.5%	*11.0%*	*11.0%*	Return on Com Equity	*12.0%*
3.3%	3.6%	3.9%	3.2%	*3.5%*	*3.5%*	Retained to Com Eq	*4.5%*
68%	66%	64%	67%	*70%*	*70%*	All Div'ds to Net Prof	*60%*
14.5	15.8	18.3	20.2	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*13.0*
.91	.91	.95	1.15			Relative P/E Ratio	*.85*
4.6%	4.1%	3.4%	3.3%			Avg Ann'l Div'd Yield	*5.0%*



WATER UTILITY INDUSTRY

INDUSTRY TIMELINESS: 85 (of 97)

The events of September 11th have altered many priorities in the Water Utility Industry.

Long-term trends in the industry indicate that the cost of maintaining and upgrading water/wastewater systems will rise. The industry is consolidating, with larger companies acquiring smaller operators to achieve economies of scale.

Water Utility stocks are ranked to underperform the year-ahead market, though some of these issues offer conservative investors appealing risk-adjusted, total-return potential.

Security Issues

In response to the events of September 11th, the need to secure water systems against terrorism has become a top priority for regulators and water utilities alike, pushing many other legislative issues to the side. The FBI has stated that water companies should be on alert for potential threats in the months ahead. Many water companies are already heeding this warning, and incurring additional costs in the process that may limit near-term bottom-line growth. Also, the industry and regulators are working together to provide approximately $5 billion in federal funds for immediate infrastructure improvements as part of the pending economic stimulus legislation.

Industry Consolidation

Infrastructure costs in the Water Utility Industry will likely rise dramatically over the next 20 years. These companies have to maintain and upgrade their systems continually in order to remain in compliance with increasingly stringent rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that now treat and transport drinking water were built about a century ago. The costs of replacing those systems are significantly higher these days, even adjusting for inflation. Adding to the cost is the fact that nearby bodies of water tend to get depleted and expensive to use, so more-distant sources of water must be brought in to keep up with increasing demand for purified water. Water is difficult and costly to transport, since it is heavy and incompressible. All in all, industry sources estimate that over $140 billion will be needed to upgrade the nation's water-distribution system over the next 20 years.

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional operators, since they have a limited base of customers over which to spread these costs. Small and mid-sized utilities generally welcome takeover offers from larger acquirers because of their superior capital resources. The acquiring utility attempts to achieve economies of scale through the transactions. Also, it gains greater geographic diversity, and that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators.

Large-scale foreign acquirers have been very interested in purchasing domestic water utilities over the past few years, and the latest evidence is the generous takeover offer RWE AG made for *American Water Works*, the nation's largest public water company. RWE, a Germany-based firm, stands to gain cost synergies in the deal, along with geographic diversity in a politically stable country. Foreign utilities have been fascinated with the risk-adjusted earnings potential of U.S. water companies, and they are likely to continuing their buying spree over the next few years. As such, the number of investor-owned water providers with large territories is steadily dwindling. This development gives additional hope to those U.S. water utilities and investors looking for substantial buyout offers.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities usually spend a significant portion of their annual capital budgets on efforts to stay in compliance with SDWA guidelines. These companies must also comply with the Clean Water Act, and numerous state and local laws.

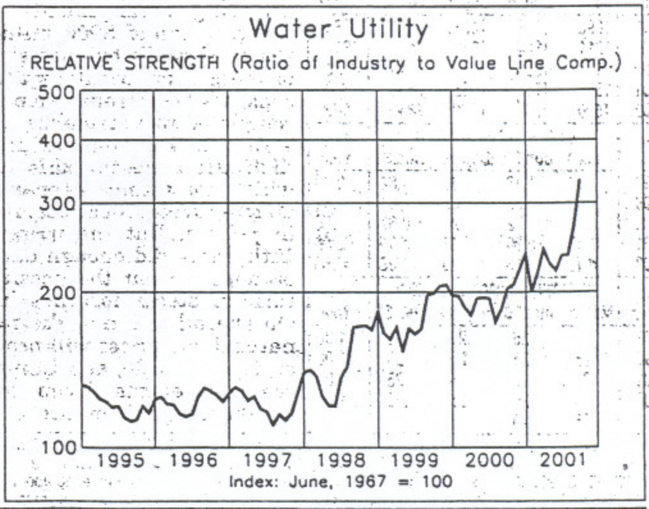
Investment Advice

The Water Utility stocks in this review are not timely for investment over the next six to 12 months. Nonetheless, a few of these issues possess favorable Safety ranks and solid dividend-growth prospects that may appeal to conservative investors.

Joseph Espaillat

Composite Statistics: Water Utility Industry

1997	1998	1999	2000	2001	2002		04-06
1439.5	1503.1	1898.0	2054.9	*2210*	*2315*	Revenues ($mill)	*2895*
183.2	192.9	232.8	254.2	*270*	*295*	Net Profit ($mill)	*410*
38.4%	39.1%	39.7%	40.1%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
6.4%	7.9%	9.6%	5.5%	*6.5%*	*6.5%*	AFUDC % to Net Profit	*7.5%*
57.3%	58.0%	56.2%	54.9%	*54.5%*	*54.0%*	Long-Term Debt Ratio	*53.0%*
40.0%	39.7%	41.9%	44.0%	*44.5%*	*45.0%*	Common Equity Ratio	*46.0%*
4113.2	4524.6	5566.3	5654.6	*6055*	*6335*	Total Capital ($mill)	*7495*
5069.2	5544.7	7039.7	7545.4	*7975*	*8425*	Net Plant ($mill)	*9935*
6.5%	6.3%	6.2%	6.6%	*6.0%*	*6.0%*	Return on Total Cap'l	*6.5%*
10.4%	10.2%	9.6%	9.8%	*10.5%*	*11.0%*	Return on Shr. Equity	*11.5%*
10.9%	10.5%	9.8%	9.9%	*10.5%*	*11.0%*	Return on Com Equity	*11.5%*
4.7%	4.4%	4.1%	4.0%	*4.5%*	*4.5%*	Retained to Com Eq	*5.0%*
57%	59%	59%	61%	*60%*	*59%*	All Div'ds to Net Prof	*52%*
15.2	19.4	19.2	16.3			Avg Ann'l P/E Ratio	*13.5*
.88	1.01	1.09	1.08	***Bold figures are Value Line estimates***		Relative P/E Ratio	*.90*
3.7%	3.0%	3.0%	3.7%			Avg Ann'l Div'd Yield	*3.0%*



INDUSTRY TIMELINESS: 54 (of 98)

Infrastructure costs in the Water Utility Industry will rise considerably over the coming 20 years. Consequently, larger companies are buying smaller ones in an attempt to achieve economies of scale.

Water utility stocks are ranked to perform in the middle of the pack over the coming 12 months. Nonetheless, conservative investors can find above-average Safety ranks and attractive dividends in the group.

Industry Consolidation

Infrastructure costs in the water utility industry will likely soar over the next two decades. These companies must constantly repair and upgrade their existing water/wastewater systems in order to comply with increasingly strict rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that transport water were constructed over 100 years ago. The costs of replacing these systems is considerably higher now than it was in the past, even adjusting for inflation. Too, the ongoing depletion of nearby sources of water forces many water utilities to obtain water from more-distant, more-expensive sources. Water is difficult and costly to transport because it is heavy and incompressible. Nonetheless, utilities must continue to keep pace with rising demand for drinking water from growing residential and industrial customers. Recent estimates are that it will cost hundreds of billions of dollars to replace and upgrade failing water infrastructures over the next 20 years. This amounts to more than the entire current assets of the water industry in America. Much of these costs will likely be financed by federal spending and higher water rates. Nevertheless, water utilities are going to have to ante up much higher capital investments over the coming years.

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional companies because they have fewer customers over which to spread their costs. Small and mid-sized water utilities tend to welcome takeover offers from larger, better-capitalized companies so that they can utilize the bigger firm's superior resources. For instance, the EPA's new rules on the allowable levels of arsenic in drinking water (10 parts per billion by January, 2006) is compelling some smaller utilities to merge with larger ones in an effort to remain in compliance with the new standards. By purchasing these smaller entities, large utilities seek to achieve economies of scale. Also, a bigger company gains greater geographic diversity that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators. For example, the regulatory climate in California has been extra costly for utilities in the past couple of years, so companies, such as *California Water*, have been actively looking for acquisition targets outside of the state. On a positive note, the passage of a new law in California will allow water utilities to charge higher rates to customers (subject to refund) if regulators do not render decisions on rate cases within established processing periods. This ought to improve revenues for three out of four companies in this review.

Recent Challenges

The events of September 11, 2001 have introduced a whole new set of challenges for the industry. Companies have been spending a lot of time, energy, and money on making sure that their water systems are reasonably secure from potential terrorist attacks. Utilities have turned to local and federal regulators for reimbursement and additional funding, but the amount and timing of future funds is uncertain. Also, insurance costs have soared in the past year, as insurers are now more reluctant to cover companies, like water utilities, that can potentially have catastrophic losses.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for potential impurities in drinking water. The EPA mandates what particular level of a certain contaminant is acceptable per a specified amount of water. Water utilities routinely spend large portions of their annual capital expenditures on efforts to remain in compliance with SDWA guidelines. These companies must also comply with the 1972 Clean Water Act, and numerous other state and local laws, another costly endeavor.

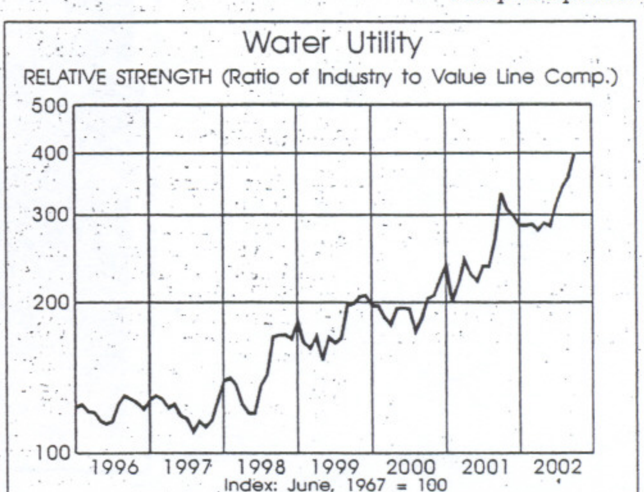
Decent Grounds For Conservative Investors

The water-utility stocks in this review are unlikely to outperform the year-ahead market. Nonetheless, they offer above-average Safety ranks, attractive dividend yields, and decent risk-adjusted total-return potential.

Joseph Espaillat

Composite Statistics: Water Utility Industry

1998	1999	2000	2001	2002	2003		05-07
1503.1	1898.0	2054.9	2190.5	*2495*	*2710*	Revenues ($mill)	*3360*
192.9	232.8	249.7	261.8	*275*	*315*	Net Profit ($mill)	*465*
39.1%	39.7%	40.1%	39.5%	*41.5%*	*40.0%*	Income Tax Rate	*40.0%*
7.9%	9.6%	5.5%	3.4%	*2.0%*	*2.0%*	AFUDC % to Net Profit	*3.0%*
58.0%	56.2%	54.9%	56.7%	*57.0%*	*56.0%*	Long-Term Debt Ratio	*52.5%*
39.6%	41.9%	44.0%	42.4%	*42.0%*	*43.0%*	Common Equity Ratio	*47.0%*
4524.6	5566.3	5654.6	6198.1	*7005*	*7085*	Total Capital ($mill)	*8780*
5544.7	7039.7	7545.4	7991.2	*9210*	*9940*	Net Plant ($mill)	*12085*
6.3%	6.2%	6.6%	6.3%	*6.0%*	*6.5%*	Return on Total Cap'l	*7.0%*
10.2%	9.6%	9.8%	9.8%	*10.0%*	*10.5%*	Return on Shr. Equity	*11.5%*
10.5%	9.8%	9.9%	9.9%	*10.0%*	*10.5%*	Return on Com Equity	*11.5%*
4.4%	4.1%	4.0%	3.9%	*3.0%*	*4.5%*	Retained to Com Eq	*6.0%*
59%	59%	60%	61%	*61%*	*58%*	All Div'ds to Net Prof	*47%*
19.4	19.2	16.3	20.9	***Bold figures are Value Line estimates***		Avg Ann'l P/E Ratio	*13.5*
1.01	1.09	1.06	1.07			Relative P/E Ratio	*.90*
3.0%	3.0%	3.7%	2.9%			Avg Ann'l Div'd Yield	*3.0%*



The Water Utility Industry's consolidation continues to gain momentum, as industry leaders look for opportunities to buy out smaller companies that are struggling to keep up with escalating infrastructure costs and heightened regulatory requirements.

Water Utility stocks are unlikely to outperform the broad market for the year ahead. With that said, however, some of these issues offer conservative investors attractive risk-adjusted, total-return potential.

Government Regulations

In order to keep water supplies safe, national purification standards have been established that the water industry is required to meet. Amended in 1996, the Safe Drinking Water Act (SDWA) of 1974 authorizes the Environmental Protection Agency (EPA) to work with state and local governments to periodically test for impurities in drinking water and regulate the levels of contaminants that are acceptable per a specified amount of water. These standards take into account the health effects of chemicals, measurement capabilities, and technical feasibility. One of the most significant contaminants that the industry screens for is arsenic, a naturally occurring substance. However, the EPA is in the process of lowering the tolerated amount of arsenic to 10 parts per billion from 20 parts currently. The change is expected to be in effect by January, 2006. Large chunks of water utilities' annual capital budgets are already spent on infrastructure maintenance and improvements in order to stay in compliance with the SDWA, the Clean Water Act, and numerous state and local laws. This percentage is likely to climb even higher, as fears of terrorism have prompted officials to further tighten regulation requirements.

Rising Infrastructure Costs

Along with the necessity to remain in compliance with increasingly strict water purity standards, water companies are also being pressured to continually upgrade aging facilities. Many of the water/wastewater systems that are presently in use were built over 100 years ago and are growing outdated. The costs associated with replacing these systems are dramatically higher now than when they initially were put in place. The EPA and other industry sources indicate that hundreds of billions of dollars over the next 20 years will be needed to repair the nation's entire water system. The Water Infrastructure Network believes that there will be a $12 billion annual shortfall for wastewater infrastructure over that period, and long-term help from the federal government is needed to solve the problem. Water companies will most likely foot the majority of the bill, though, as budget deficits at state and local levels will limit funds dedicated to the industry.

INDUSTRY TIMELINESS: 97 (of 98)

Industry Consolidation

With the costs of meeting safe drinking water guidelines on the rise, many smaller companies lack the funds to commit to long-term structural improvements. As such, these smaller water companies have been increasingly willing to accept takeover offers from larger suitors with significantly greater capital resources. The larger utilities benefit from economies of scale, which enables them to reduce overhead. In addition, the acquisitions usually enhance geographic diversity, reducing a company's vulnerability to weather fluctuations. Then, too, a multistate territory helps to alleviate a company's exposure to especially onerous regulatory atmospheres. Large foreign utilities have been particularly active in recent years, swallowing up domestic water companies in an effort to gain exposure to the United States' steady population growth.

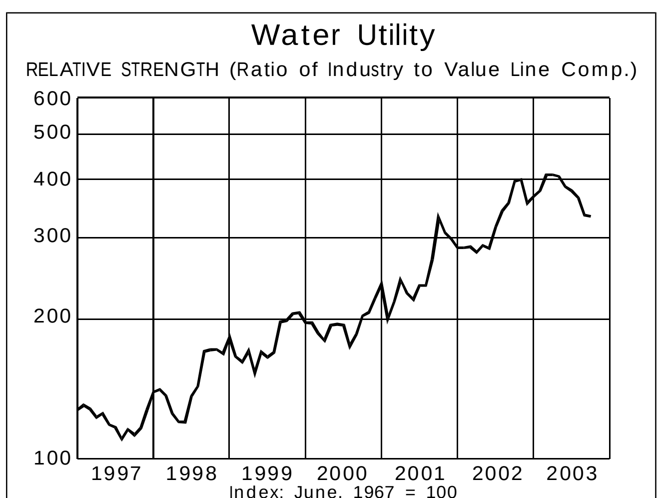
Investment Advice

None of the stocks under review are timely at this juncture, as poor weather conditions have resulted in inconsistent earnings patterns. Although *Philadelphia Suburban, California Water Services Group, and American States Water* all have below-average total-return potential out to 2006-2008, income-oriented investors might may find one of these stocks attractive, given their favorable risk profile. Income-bearing stocks have gained some additional popularity of late, because of the recent federal tax bill that reduced the top rate investors pay on dividend income to 15%. As usual, though, we recommend that potential investors careful review individual reports before making any new commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

1999	2000	2001	2002	2003	2004		06-08
637.2	704.3	751.8	794.4	***845***	***950***	Revenues ($mill)	***1185***
72.4	90.9	95.4	106.6	***105***	***130***	Net Profit ($mill)	***190***
40.0%	41.2%	40.2%	38.8%	***39.0%***	***39.5%***	Income Tax Rate	***40.0%***
- -	- -	- -	- -	***Nil***	***.5%***	AFUDC % to Net Profit	***.5%***
51.1%	50.3%	52.4%	53.9%	***53.0%***	***51.5%***	Long-Term Debt Ratio	***51.0%***
48.3%	49.3%	47.2%	45.9%	***46.5%***	***48.5%***	Common Equity Ratio	***49.0%***
1444.7	1661.0	1840.7	1973.6	***2250***	***2425***	Total Capital ($mill)	***3050***
2100.3	2342.5	2532.3	2751.1	***3025***	***3225***	Net Plant ($mill)	***3950***
7.4%	7.0%	6.8%	7.0%	***6.5%***	***7.0%***	Return on Total Cap'l	***7.5%***
11.5%	10.7%	10.6%	11.2%	***10.0%***	***10.5%***	Return on Shr. Equity	***12.0%***
11.5%	10.8%	10.7%	11.2%	***10.0%***	***11.0%***	Return on Com Equity	***12.0%***
3.8%	3.6%	3.3%	3.9%	***3.0%***	***4.0%***	Retained to Com Eq	***5.5%***
68%	67%	69%	66%	***75%***	***65%***	All Div'ds to Net Prof	***54%***
19.5	18.6	22.6	21.5	***Bold figures are Value Line estimates***		Avg Ann'l P/E Ratio	***13.5***
1.11	1.21	1.16	1.17			Relative P/E Ratio	***.90***
3.5%	3.6%	3.1%	3.1%			Avg Ann'l Div'd Yield	***3.0%***



The Water Utility industry continues to rank near the bottom of the *Value Line* investment universe. Infrastructure costs will limit earnings for at least the near future, as the high expenses associated with maintaining and improving the country's water-distribution systems continue to rise.

However, it appears that relief is on the way for some companies. Favorable regulatory rate case rulings have been handed down across the country and look as though they might become the norm.

Meanwhile, consolidation remains the name of the game. Although many of the industry's smaller players lack the capital requirements to meet growing government regulations, larger companies are using the consolidation as way to boost profitability via growing its customer base.

INDUSTRY TIMELINESS: 94 (of 98)

Infrastructure Costs

Infrastructure costs continue to climb higher as water utility companies, with little help from strapped government branches, are forced to deal with maintaining and upgrading existing facilities. Costs are becoming an even greater concern as time passes because a number of the functioning systems currently in place are over 100 years old and in need of significant repair. That said, we believe that it will take hundreds of billions of dollars to renovate existing pipelines over the next few decades. To make matters worse, the costs of staying in compliance with regulatory laws are growing even more difficult, due to fears of terrorist activities against the country's drinking supplies. Although the Safe Drinking Water Act (SDWA) of 1974 remains the authority for the safety and purity of drinking water, recent amendments are making compliance even more demanding. In 1996, an amendment authorized the Environmental Protection Agency (EPA) to step up local compliance levels. And, governing law-makers now insist that the EPA work with local and state governments to test for impurities in drinking water and to regulate the levels of contaminants that are acceptable.

A Buying Opportunity

The growing regulations and costs associated with staying in compliance with government standards related to the quality and purification of drinking water is forcing many of the smaller water companies to look to larger suitors. Bigger companies with the market scale to withstand the current onslaught of costs are clearly taking advantage of this situation. Indeed, these firms are growing their businesses at relatively low costs as well as diversifying their operations into less regulated and more-rapidly developing areas of the U.S. *Aqua America* is a perfect example, making nearly 20 acquisitions since the close of last year. *Aqua* recently purchased a number of Pennsylvania-based companies in order to help drive top-line growth. We anticipate that the current consolidation theme will persist, as we expect restructuring costs to continue to rise.

Regulatory Assistance

Although water utility company's have been forced to deal with lethargic case rulings in the past couple of years, some governing bodies are picking up the pace. In California, for example, the California Public Utilities Commission (CPUC) has handed down a number of favorable rate-relief rulings in recent months, and more are expected. With the California electric crisis seemingly in the rearview mirror, the current administration seems intent on delivering more timely assessments. *American States Water Company* and *California Water Service Group* have both seen profits benefit from recent case rulings over the past quarter.

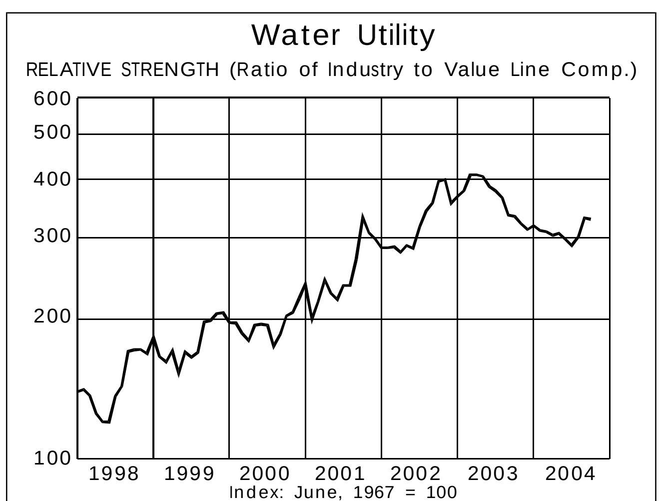
Investment Advice

Most investors will want to take a pass on the stocks covered in the next few pages, as they offer uninspiring returns out to decade's end. In addition, not one of the stocks in this edition is ranked to outperform the market in the next six to 12 months. Nonetheless, income-oriented investors may like the industry's solid dividend yields. *California Water* may have some added appeal for the risk-averse, given its above average Safety rank. Still, we advise that potential investors carefully review the individual reports in the ensuing pages before making a commitment to any of the stocks mentioned above.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2000	2001	2002	2003	2004	2005		07-09
704.3	751.8	794.4	857.0	***990***	***1075***	Revenues ($mill)	***1345***
90.9	95.4	106.6	98.6	***130***	***150***	Net Profit ($mill)	***205***
41.2%	40.2%	38.8%	40.0%	***40.0%***	***40.0%***	Income Tax Rate	***40.0%***
-	- -	- -	- -	***Nil***	***Nil***	AFUDC % to Net Profit	***Nil***
50.3%	52.4%	53.9%	51.2%	***51.0%***	***51.0%***	Long-Term Debt Ratio	***50.0%***
49.3%	47.2%	45.9%	48.6%	***49.0%***	***49.0%***	Common Equity Ratio	***50.0%***
1661.0	1840.7	1973.6	2296.4	***2615***	***2870***	Total Capital ($mill)	***3550***
2342.5	2532.2	2751.1	3186.1	***3400***	***3605***	Net Plant ($mill)	***4150***
7.0%	6.8%	7.0%	5.9%	***6.5%***	***7.0%***	Return on Total Cap'l	***7.0%***
10.7%	10.6%	11.2%	8.8%	***9.5%***	***9.5%***	Return on Shr. Equity	***10.0%***
10.8%	10.7%	11.2%	8.8%	***9.5%***	***9.5%***	Return on Com Equity	***10.0%***
3.6%	3.3%	3.8%	2.5%	***3.5%***	***4.0%***	Retained to Com Eq	***4.5%***
67%	69%	66%	72%	***62%***	***58%***	All Div'ds to Net Prof	***52%***
18.6	22.6	21.5	26.0	***Bold figures are Value Line estimates***		Avg Ann'l P/E Ratio	***18.0***
1.21	1.16	1.17	1.49			Relative P/E Ratio	***1.20***
3.6%	3.1%	3.1%	2.8%			Avg Ann'l Div'd Yield	***3.5%***



INDUSTRY TIMELINESS: 93 (of 98)

After showing some brief signs of a turnaround last year, the Water Utility Industry appears to have reverted back to its old ways. Feeling the effects of uncooperating weather conditions and high infrastructure costs, the stocks in this industry have had trouble meeting earnings expectations and, as a result, have sorely underperformed the broader market in recent months. In fact, none of the water utility stocks that are covered in the next few pages are ranked better than 3 (Average) for Timeliness, based on our momentum based ranking system. As a whole, the industry ranks near the bottom of the Value Line investment universe.

And the future does not look much brighter. Although a more favorable regulatory landscape and normalized weather conditions ought to provide a better landscape, we are concerned that rapidly growing infrastructure costs will continue to undermine this group's earnings out to late decade.

Easing Tensions

Although designed to keep a balance of power between consumers and providers, regulatory authorities, have long been a thorn in the side of water utility companies. Rate relief case decisions had often been unfavorable and untimely, with some rulings being pushed off for as long as two years. But, it finally looks as though things are taking a turn for the better, especially in the state of California. The California Public Utilities Commission (CPUC), which is responsible for ruling on general rate case requests in the Golden State, has been handing down more-favorable and timely decisions in recent months, thanks, in part, to the efforts of Governor Schwarzenegger. He has replaced members thought to be antagonists of rate relief with more-business-friendly members, and additional moves may be in the works. The recent changes makes for a favorable backdrop for water utility companies operating in California, such as *American States Water Co.* and *California Water Service Group*.

Costs

But, while regulators are easing their stance on rate case decisions, this does not look to be the case for infrastructure demands. Many of the current infrastructures are upwards of 100 years old and are in severe need of maintenance and, in some cases, massive renovations and rebuilding. And, given the geopolitical volatility worldwide and the heightened threat of bioterrorism on U.S. water pipelines and reservoirs, these costs are likely to continue to only rise, as companies strive to comply with EPA water purification standards. Infrastructure repair costs are expected to climb in the hundreds of millions of dollars over the next two decades, putting many smaller water companies at a distinct disadvantage. With a dearth of resources to fund these improvements, many such companies are being forced to sell. But, given the current landscape, larger companies with the flexibility and capital to deal with the higher costs are utilizing the weakness to add additional legs of growth to their businesses. *Aqua America*, the largest water utility in our survey, for example, has made more than 90 acquisitions in the past five years, doubling its revenue base during that time. The company does not seem to be slowing its aggressive spending ways and has the highest return on equity of any of the stocks that we cover here.

Investment Advice

Most investors will probably want to take a pass on the stocks in this industry. Typically market laggards, not one of the issues covered in the next few pages stands out for near-term or long-term capital gains potential. The limited financial resources of most of these companies, along with the capital-intensive nature of the industry, will probably limit any substantial growth out to late decade.

Those seeking to add an income component to their portfolio may find an attractive option here, though. Each of the stocks in this industry carries an above-average dividend yield, with *American States Water* and *California Water* offering the highest percentages. *California Water* offers some additional appeal, as it has a 2 (Above Average) Safety rank. As is always the case, we recommend that all potential investors take a more in depth look at the individual reports on the following pages before considering making any future financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2001	2002	2003	2004	2005	2006		08-10
751.8	794.4	857.0	985.6	*1250*	*1350*	Revenues ($mill)	*1725*
95.4	106.6	98.6	122.4	*155*	*170*	Net Profit ($mill)	*235*
40.2%	38.8%	40.0%	39.4%	*39.5%*	*39.5%*	Income Tax Rate	*39.5%*
- -	- -	- -	- -	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
52.4%	53.9%	51.2%	50.0%	*52.0%*	*51.0%*	Long-Term Debt Ratio	*48.0%*
47.2%	45.9%	48.6%	50.0%	*48.0%*	*49.0%*	Common Equity Ratio	*52.0%*
1840.7	1973.6	2296.4	2543.6	*3000*	*3400*	Total Capital ($mill)	*4100*
2532.2	2751.1	3186.1	3532.5	*4050*	*4250*	Net Plant ($mill)	*5000*
6.8%	7.0%	5.9%	6.7%	*7.0%*	*7.5%*	Return on Total Cap'l	*7.0%*
10.6%	11.2%	8.8%	10.7%	*11.0%*	*11.0%*	Return on Shr. Equity	*11.5%*
10.7%	11.2%	8.8%	10.7%	*11.0%*	*11.0%*	Return on Com Equity	*11.5%*
3.3%	3.8%	2.5%	4.6%	*5.0%*	*5.0%*	Retained to Com Eq	*3.0%*
69%	66%	72%	57%	*60%*	*55%*	All Div'ds to Net Prof	*45%*
22.6	21.5	26.0	25.5	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*18.0*
1.16	1.17	1.48	1.36			Relative P/E Ratio	*1.20*
3.1%	3.1%	2.8%	2.2%			Avg Ann'l Div'd Yield	*3.4%*